



# STRATEGIC PLAN 2011-2015

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# Agency Strategic Plan

For the Fiscal Years 2011-2015 Period

by

Texas Racing Commission

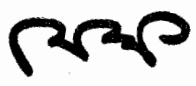
Commissioners	Term Expires	Hometown
Rolando Pablos, Chair	10/03/2007 – 02/01/2013	San Antonio
Robert Schmidt, M.D., Vice Chair	11/16/2007 – 02/01/2011	Fort Worth
G. Kent Carter, D.V.M.	02/19/2004 – at pleasure of Governor	Caldwell
Ronald F. Ederer	07/17/2007 – 02/01/2013	Fair Oaks Ranch
Scott Haywood	11/24/2009 – 02/01/2015	Austin
Gloria Hicks	11/09/2007 – 02/01/2011	Corpus Christi
Vicki Weinberg	04/08/2009 – 02/01/2015	Colleyville
<b>Ex-Officio Members</b>		
Thomas Clowe Designee for Chair Public Safety Commission	N/A	Waco
Susan Combs Comptroller of Public Accounts	N/A	Austin

July 2, 2010

Signed:

  
Charla Ann King, Executive Director

Approved:

  
Rolando Pablos, Chair



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\*Per the Agency Strategic Plan Instructions, the Measure Definitions are only included in copies submitted to Governor's Office of Budget, Planning and Policy and the Legislative Budget Board.



## GUIDING PRINCIPLES

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March 2010

Fellow Public Servants:

Since the last exercise in strategic planning began in March 2008, much has changed in the national economic picture. States across the nation have struggled with severe budget shortfalls and the national economy has yet to rebound as many hoped and predicted. Texas, however, has weathered the economic downturn better than other states and been recognized as an example for other states to follow.

Our position relative to other states is not by accident. Texas has demonstrated the importance of fiscal discipline, setting priorities, and demanding accountability and efficiency in state government. We have built important reserves in our state's "Rainy Day Fund," cut taxes on small businesses, and emphasized a stable and predictable regulatory climate in an effort to show that the Lone Star State is a great place to build a business and raise a family.

Over the last year, families across this state and nation have tightened their belts in response to the economic challenges. Government should be no exception. As we begin this next round in our strategic planning process, we must critically reexamine the role of state government by identifying the core programs and activities necessary for the long-term economic health of our state, while eliminating outdated and inefficient functions. We must set clear priorities that will help maintain our position as a national leader now and in the future by:

Ensuring the economic competitiveness of our state by adhering to principles of fiscal discipline, setting clear budget priorities, living within our means, and limiting the growth of government;

Investing in critical water, energy, and transportation infrastructure needs to meet the demands of our rapidly growing state;

Ensuring excellence and accountability in public schools and institutions of higher education as we invest in the future of this state and ensure Texans are prepared to compete in the global marketplace;

Defending Texans by safeguarding our neighborhoods and protecting our international border; and

Increasing transparency and efficiency at all levels of government to guard against waste, fraud, and abuse, ensuring that Texas taxpayers keep more of their hard-earned money to keep our economy and our families strong.

I am confident we can address the priorities of our citizens with the limited government principles and responsible governance they demand. I know you share my commitment to ensuring that this state continues to shine as a bright star for opportunity and prosperity for all Texans. I appreciate your dedication to excellence in public service and look forward to working with all of you as we continue charting a strong course for our great state.

Rick Perry

## The Philosophy of Texas State Government

The task before all state public servants is to govern in a manner worthy of this great state. We are a great enterprise, and as an enterprise, we will promote the following core principles:

- First and foremost, Texas matters most. This is the overarching, guiding principle by which we will make decisions. Our state, and its future, is more important than party, politics, or individual recognition.
- Government should be limited in size and mission, but it must be highly effective in performing the tasks it undertakes.
- Decisions affecting individual Texans, in most instances, are best made by those individuals, their families, and the local government closest to their communities.
- Competition is the greatest incentive for achievement and excellence. It inspires ingenuity and requires individuals to set their sights high. Just as competition inspires excellence, a sense of personal responsibility drives individual citizens to do more for their future and the future of those they love.
- Public administration must be open and honest, pursuing the high road rather than the expedient course. We must be accountable to taxpayers for our actions.
- State government has a responsibility to safeguard taxpayer dollars by eliminating waste and abuse and providing efficient and honest government.
- Finally, state government should be humble, recognizing that all its power and authority is granted to it by the people of Texas, and those who make decisions wielding the power of the state should exercise their authority cautiously and fairly.

## The Mission of Texas State Government

Texas state government must be limited, efficient, and completely accountable. It should foster opportunity and economic prosperity, focus on critical priorities, and support the creation of strong family environments for our children. The stewards of the public trust must be men and women who administer state government in a fair, just, and responsible manner. To honor the public trust, state officials must seek new and innovative ways to meet state government priorities in a fiscally responsible manner.

**AIM HIGH...WE ARE  
NOT HERE TO  
ACHIEVE  
INCONSEQUENTIAL  
THINGS!**

## Relevant Goals and Benchmarks

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### General Government

**Priority Goal:**

To provide citizens with greater access to government services while reducing service delivery costs and protecting the fiscal resources for current and future taxpayers by:

- Supporting effective, efficient, and accountable state government operations;
- Ensuring the state's bonds attain the highest possible bond rating; and
- Conservatively managing the state's debt.

**BENCHMARKS:**

- Number of state services accessible by Internet
- Total savings realized in state spending by making reports/documents/processes available on the Internet

### Regulatory

**Priority Goal:**

To ensure Texans are effectively and efficiently served by high-quality professionals and businesses by:

- Implementing clear standards;
- Ensuring compliance;
- Establishing market-based solutions; and
- Reducing the regulatory burden on people and business.

**BENCHMARKS:**

- Percent of state professional licensee population with no documented violations
- Percent of new professional licensees as compared to the existing population
- Percent of documented complaints to professional licensing agencies resolved within six months
- Percent of individuals given a test for professional licensure who received a passing score
- Percent of new and renewed professional licenses issued via Internet
- Percent increase in utilization of the state business portal

### **The Racing Commission**

The Texas Legislature created the Texas Racing Commission in 1986 to be the state agency responsible for overseeing and regulating pari-mutuel horse and greyhound racing in Texas. The Commission functions pursuant to authority granted in the Texas Racing Act, Vernon's Texas Civil Statutes, Art. 179e.

### **Mission**

The mission of the Texas Racing Commission is to enforce the Texas Racing Act and its rules to ensure the safety, integrity, and fairness of Texas pari-mutuel racing.

### **Philosophy**

The Texas Racing Commission performs its responsibilities in strict compliance with state laws. The agency conducts its regulatory activities fairly, consistently, efficiently, and courteously.

## AGENCY OVERVIEW

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The Texas Racing Commission regulates all aspects of pari-mutuel horse and greyhound racing through licensing, on-site monitoring and enforcement. Statute and rule require the Commission to:

- License racetracks that offer racing and the people who work at the racetracks or own race animals.
- Allocate race dates, supervise the conduct of all races, monitor the health and safety of the race animals, and conduct drug tests to ensure the animals race without prohibited substances.
- Oversee all pari-mutuel wagering activity, approve simulcasts, test the totalisator systems (complex computer systems that tally and calculate pari-mutuel wagers), and ensure the proper allocation and distribution of revenue generated by pari-mutuel wagering.
- Administer the Texas-Bred Incentive Program, which provides economic incentives to support a healthy and vigorous breeding industry in the state.

## Organizational Structure

The General Appropriations Act authorizes the Texas Racing Commission (TxRC) to have 75.5 full-time equivalent positions in FY

2010 and FY 2011. While the

Texas Racing Act (Act) requires the Commission's headquarters to be in Austin, approximately 2/3 of the staff work at the operating racetracks. Many of the employees outside of Austin are seasonal, working only when the racetracks conduct live racing.

The Commission's workforce features a diverse collection of professions that includes auditors, veterinarians, stewards, racing judges, investigators, licensing staff and support personnel (See Appendix B).



The Commission has a field office at each of the three operating Class 1 and one Class 2 horse racetracks and at each of the three currently operating greyhound racetracks. Additionally, staff is always present at any track running live racing.

Early in 2010, the agency completed a reorganization. Before the reorganization, the agency's departments operated in a silo manner, largely as distinct units. Communication across departments needed significant development to ensure that information flowed to personnel appropriately and agency work was accomplished at the highest available level of performance.

The new agency structure with three divisions encourages teamwork across the departments and better supports effective communication. Work is distributed more appropriately. Employees have the chance to enhance their knowledge and skills. Most importantly, the agency is in a better position to serve its stakeholders now and into the future.

The new agency structure features an Executive group headed by an Executive Director; a Division for Racing Oversight led by a Deputy Director for Racing Oversight; a Division for Wagering and Racing Review directed by a Deputy Director for Wagering and Racing Review; and a Division for Finance and Administration guided by a Deputy Director of Finance and Administration.

### **Executive**

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#### **Executive Director**

As head of the agency, the Executive Director supervises agency activities as a whole and manages the agency's three divisions. The Executive Director oversees development of agency operating policies and procedures and ensures that the agency's regulatory responsibilities are carried out. The Executive Director represents the agency before the legislature and other governmental agencies. The Executive Director serves a primary role in external relations with industry stakeholders, regulators in other states, and a national regulatory association.

With the assistance of the General Counsel's staff, the Executive Director oversees coordination of the evaluation of racetrack license applications, the race date allocation process, and assesses administrative penalties against racetrack licensees.

The Executive Director's Office is also responsible for other administrative functions, including responding to public information and media requests.

#### **General Counsel**

The General Counsel advises the Commissioners and staff on legal and regulatory enforcement issues affecting the agency. Coordinating all aspects of Commission meetings and rulemaking proceedings, the General Counsel also represents the agency before the State Office of Administrative Hearings

when prosecuting appeals from decisions made by the Board of Stewards/Judges and disciplinary cases initiated by the Executive Director.

### **Division for Racing Oversight**

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#### **Deputy Director for Racing Oversight**

The Deputy Director for Racing Oversight leads a division focused on enforcement and oversight of day-to-day racetrack operations. The members of this group make up the agency's presence at Texas tracks. The Deputy Director supervises personnel directly responsible for regulating the conduct of live racing and is responsible for the following teams: Licensing, Investigations, Veterinarians/Drug Testing and Stewards/Judges.

- **Licensing**

Staff in licensing issue occupational licenses and registrations to all persons involved in pari-mutuel greyhound and horse racing. Licensing staff at each racetrack help maintain the integrity of the industry by ensuring that all participants are licensed and in good standing. Generally, any person who works on the grounds of a pari-mutuel racetrack or who seeks to make a living through pari-mutuel racing in Texas must be licensed by the Commission.

To ensure that all participants in racing are properly licensed, the Commission has more than fifty categories of occupational license. Stable and kennel area occupations — jockeys, owners, kennel owners, trainers and grooms — must secure licenses, as must employees of the racetrack — management personnel, food service workers and mutuel tellers.

- **Investigations**

The investigators, who are all licensed peace officers, coordinate enforcement of the Commission's Rules and the Texas Racing Act.

Investigations are conducted on animal drug positives, criminal histories returned on license applicants, illegal wagering, use and possession of contraband, drug abuse and narcotics trafficking, and other illicit activities that could affect the integrity of pari-mutuel racing.

Drug testing of licensees suspected of using illegal drugs while performing their duties has become an important aspect of regulating the industry. If a licensee tests positive for an illegal controlled substance or alcohol, the licensee faces a suspension and must seek professional help.

- **Stewards/Judges**

The division includes stewards at horse tracks and Judges at greyhound tracks. The judges and stewards monitor the conduct of live races and enforce the Racing Act and the Commission's Rules of Racing.

The stewards and judges have broad authority to resolve matters arising during a race meeting. They may issue fines up to \$5,000 and/or suspend licensees for up to one year.

- **Veterinarians/Drug Testing**

The Chief Veterinarian oversees this division, supervising the veterinarians and test barn supervisors working at the racetracks.

Employees in this division inspect all race animals before a competition to ensure they are sound to compete, inspect the stable and kennel areas for animal health and safety issues, and implement the Commission's race animal drug testing program.

The Chief Veterinarian also serves as a liaison between the Commission and veterinary-related organizations and agencies, such as the Texas Animal Health Commission, the American Association of Equine Practitioners and the Texas Veterinary Medical Association.

### **Division for Wagering and Racing Review**

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#### **Deputy Director for Wagering and Racing Review**

This division employs an analytical approach to identify and address issues of concern at Texas racetracks. The division is responsible for all activities related to wagering and racing review. The Deputy Director for Wagering and Racing Review leads the division, overseeing the agency's pari-mutuel auditors and the information technology team.

The division protects the interest of the wagering public and assures the proper collection and distribution of funds in accordance with the Racing Act. To achieve this, tests of the pari-mutuel totalisator (tote) systems are performed to assure compliance with the Rules of Racing.

Racing review involves the systematic analysis of any given track over a period of time. Racing review focuses on data and incident analyses to improve performance at tracks. Areas identified through racing review lead to policy changes and process improvements that help ensure greater safety for the athletes (horses and greyhounds), the jockeys, the public and other personnel at the track.

- **Pari-mutuel Auditors**

On-site pari-mutuel auditors perform daily audits and verifications of handle, earned purse, paid purse, outs balances, deposit reports and requests for simulcast approval. The audit staff also performs routine procedural audits, conducts random inspections of pari-mutuel wagering facilities and responds to public complaints relating to wagering.

- **Department of Information Technology**

The IT division develops and maintains the agency's network, database and Web site. This division recommends and supports all hardware and software necessary for the day-to-day activities of the Commission. The Commission's custom programs and database operate twenty-four hours a day, seven days a week, providing staff, licensees, the Department of Public Safety (DPS), the Texas A&M Veterinary Medical Diagnostic Laboratory and the general public with up-to-date information regarding all aspects of the Commission's regulatory programs.

## **Division for Finance and Administration**

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### **Deputy Director of Finance and Administration**

This division, headed by the Deputy Director of Finance and Administration, is responsible for the budget, accounting, purchasing, personnel, travel coordination and other Commission administrative functions. The division prepares the biennial Legislative Appropriation Request, the operating budget, the annual financial report and reports on performance measures. The Deputy Director supervises an accountant, a benefits coordinator, a purchaser and a group of administrative assistants who work together to support agency personnel and operations.

## **Fiscal Information**

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### **Budget and Finance**

The Commission is self-funded by the entities it regulates and is typically appropriated only GR–Dedicated funds. The agency's revenue primarily comes from fees assessed to racetracks and occupational licensees and from revenue collected from uncashed winning tickets, commonly referred to as outstanding tickets or "OUTS." For FY 2010 and FY 2011, the legislature provided an additional \$1.5 million in General Revenue Funds. This additional funding compensates for fluctuations in the agency's cash flow caused by variations in the uncashed, or outstanding ticket revenue.

For FY 2010, the Commission has a total appropriation of approximately \$10.1 million. The agency's operating budget is \$5.0 million, of which nearly 80 percent is salary and salary-related expenses. The \$10.1 million appropriation includes a direct, dedicated-revenue pass-through of almost \$5.1 million for the Texas-Bred Incentive Program.

The Texas-Bred Incentive Program is authorized in the Racing Act. It provides purse supplements and monetary awards to breeders and owners of Texas-bred greyhounds and horses to encourage

economic development through agri-business in the horse and greyhound breeding industries. Funding for the Texas-Bred Incentive Program comes from breakage from all types of wagers and a small percentage of all exotic wagers. Generally, breakage is the amount left over after payoffs to winning ticket holders rounded down to the nearest dime.

### Service Populations

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The wagering public desires confidence in the integrity of the pari-mutuel racing offered in this state. These patrons supply the revenue that drives the industry; therefore, they expect pari-mutuel wagering activity that is free from manipulation and races that are conducted fairly and honestly. In 2009, on-track attendance continued to decline, down 6 percent compared to 2008. Since 2005, attendance has dropped 12 percent. This downward trend is not expected to change materially unless new racetracks become operational.

The breeders of race animals seek an active industry in which to sell their product. Breeders invest millions of dollars in real estate, construction and operations to supply the industry with Texas-bred race animals. They benefit from pari-mutuel racing through the Texas-Bred Incentive Program. This program provides economic incentives designed to support the industry and encourage its growth and ability to compete at a national level. In 2009, the total number of animals accredited was 5,319, down more than 12 percent from the 6,049 animals accredited in 2005.

Pari-mutuel racing provides the livelihood for many occupational licensees. These individuals are demonstrably committed to racing, working hard to reap the rewards of an interesting and unique industry. In FY 2009, more than 13,500 people held an occupational license, down over 24 percent from FY 2005, when more than 18,000 held a license.

NUMBER OF LICENSEES IS DOWN  
24% OVER PAST FIVE YEARS.

This population also includes the totalisator, or tote companies. Tote companies provide the complex computer systems that tally and calculate pari-mutuel wagers. Each licensed racetrack contracts with one company to provide tote services at its facility. Only three tote companies operate in North America, each of which provides services in Texas.

Licensed racetracks, also called associations, provide the arena for racing and wagering. These associations have built or renovated racetrack facilities, at the cost of tens of millions of dollars, for the privilege of inviting patrons to wager. The Act limits the number of licensed Class 1 horse and

greyhound licenses to three each. The Commission has granted all the available Class 1 and greyhound licenses. Under current law, the only prospect for an increase in the number of associations is if the Commission issues additional Class 2, 3, or 4 horse racetrack licenses.

Two Class 2 racetrack licensees, originally licensed in 1989, have not yet constructed a facility. Over the past 20 years, each has undergone ownership changes as well as location changes. To date, neither of these licensees has submitted construction plans for Commission approval.

The Commission issued three new Class 2 licenses during 2007. Two of the licensees posted security and agreed to schedules that called for simulcasting to begin on or before January 1, 2009, and their facilities to be ready for live racing on or before July 1, 2009. The third licensee posted security and agreed to a schedule that called for simulcasting to begin on or before July 15, 2009, and its

facility to be ready for live racing on or before December 1, 2009. None of the new licensees met their obligations and forfeited the posted securities as a result.

THREE TRACKS FORFEITED  
SECURITIES  
FOR FAILING TO MEET  
RACE DATE OBLIGATIONS.

The citizens of Texas profit from the tax dollars and overall economic benefits derived from pari-mutuel racing. Although the amount of direct revenue to the state treasury from pari-mutuel wagering is a small part of the state's total revenues, the public can rely on the Commission to regulate the industry in a manner that secures that revenue. Tax revenue to the state is down approximately 17 percent over the past five years.

Race animals are the foundation of the pari-mutuel racing industry. Without their efforts, no wagering product would exist. Although the animals are not a service population in the traditional sense, the Commission recognizes its critical responsibility to protect the health and safety of these animal athletes. In FY 2009, Commission veterinarians performed just over 63,000 race animal inspections before races. Due to the decline, this is down almost 47 percent from the approximately 118,500 inspections of race animals in FY 2005.

### Other Affected Populations

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The Commission's activities affect populations other than those it directly serves. For example,

- Law enforcement agencies rely on Commission investigators to share information regarding licensees and to assist with arrests when necessary.

- Racing-related businesses, such as hay suppliers, tack vendors and food service businesses, provide products or services either to the associations or to the occupational licensees or both.
- Other racing jurisdictions rely on the profitability of their own racetracks, which are affected by Commission decisions on race dates and simulcasting. In addition, neighboring racing jurisdictions often license many of the same people as the Commission and seek to exchange licensing and enforcement information.
- The racing industry and its regulatory process may affect other Texas governmental entities including the judicial system and local law enforcement.

## EXTERNAL ASSESSMENT

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## **An Uncertain Future: Competition and Proposals for Change**

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A variety of factors are contributing to the continuing decline of the pari-mutuel racing industry. According to data from all operating racetracks, over the past five years, there has been both a 12 percent drop in attendance and a corresponding decrease of more than 23 percent in the total amount of money wagered. Accordingly, the amount of revenue allocated to racetracks, horse and greyhound purses, local communities and the state has also decreased.

The losses to the pari-mutuel industry are due primarily to varying types of competition. It appears that competition from the broad range of entertainment options available has had significant impact. However, significant to members of the racing industry is the economic stress experienced due to advancements in technology, expansions in out-of-state racetrack gaming, and the proliferation of unregulated and illegal gambling.

No longer visiting the tracks to spend their recreational gaming dollars, instead many patrons are using changes in technology to participate in this evolving form of entertainment. Texans may now watch races via satellite television or their PDA and call in their bets from home, the airport, or their favorite restaurant. Fans get on the Internet to learn about pari-mutuel racing, place their wagers and watch races. In addition to this easy, any-where based gaming access, other Texans may go out to buy tickets from the state-run lottery, play bingo at state-approved bingo halls, or travel to neighboring states to see higher quality racing and play games at racinos, casinos and riverboats.

In addition, Texans find ample opportunities to spend their dollars at illegal eight-liner outlets and non-pari-mutuel tracks across the state. Official estimates of the revenue lost to illegal and unregulated gaming are not available though the industry estimates indicate significant amounts of revenue are lost. Provided below is a description of the competitive forces facing the industry.

### **Competition from Unregulated Sources**

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The racing industry suffers from competition with gaming alternatives that are unregulated at best and are frequently illegal.

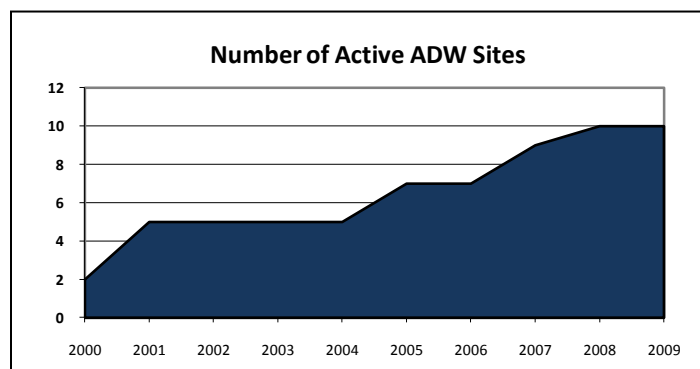
#### **Eight-liner Machines**

For the past year, the presence of illegal eight-liners has continued across the state. Local, state and federal entities have undertaken numerous law enforcement actions during the past few years, including:

- From 2008 and 2009, Houston Police Department's video eight-liner enforcement team put 72 local game rooms out of business.
- In March 2009, the Nacogdoches County Sheriff's Office arrested a couple in a double-wide trailer loaded with more than 70 eight-liner gambling machines, about 40 alleged patrons and several alleged casino employees. Officers found just less than \$10,000 in cash during the initial raid. Officers also seized a small amount of narcotics, gift cards and numerous financial documents. The couple faced charges of engaging in organized crime. Five alleged casino employees and the alleged patrons all faced lesser charges.
- In August 2009, a major operator of eight-liner machines in Texas entered a guilty plea that will cost him more than \$1 million according to Texas Attorney General, Greg Abbott. It is believed to be the largest coordinated gambling prosecution in Texas history.
- In November 2009, Laredo police raided the Mystic Amusement Center eight-liner establishment and its owner's home. Police found three weapons, ammunition and close to \$114,000 in cash at the home. At the establishment, police seized more than \$12,000 in cash.
- In March 2010, the Laredo Police Department executed a search warrant on Atlantis Amusement Center. Police officers seized a total of 150 motherboards from eight-liner machines and \$11,453 in cash.
- In May 2010, officials in the Galveston area executed four simultaneous search warrants at game rooms. Investigators seized approximately \$100,000 in cash, several thousand dollars worth of items used to support the businesses, and motherboards from approximately 400 eight-liner machines.
- The Victoria Police Department maintains an on-going investigation into illegal eight-liner activity. They are coordinating efforts with the District Attorney's office.

## Online Gambling

Advance deposit wagering (ADW) companies first appeared in 2000. These businesses accept bets both through telephone-based interactive voice response systems and through the Internet. They also allow individuals to set up accounts to wager using a credit or debit card. As technology has advanced, ADW companies have proliferated.



In September 2006, Congress passed the Unlawful Internet Gambling and Enforcement Act (UIGEA). This law prohibits banks from processing payments for illegal Internet gambling. After passage of the law, many online casinos, sportsbooks and poker rooms left the U.S. market.

Congress carved out an exception in the UIGEA that allows banks to process payments for Internet wagering on horse races. The Racing Acts in many states, including Texas, expressly prohibit phone account wagers, but remain silent on Internet wagering. Other states maintain outdated laws that do not clearly establish regulatory authority over either online or phone account wagering. The situation creates ambiguity across states that, when combined with the difficulties presented by cross-jurisdictional regulation, fosters an environment ripe for ADW companies to take advantage. For example, several ADW companies claim legal authority to accept wagers from residents of a state where this form of pari-mutuel wagering is not authorized as long as the bet is not on a race held within the bettor's state.

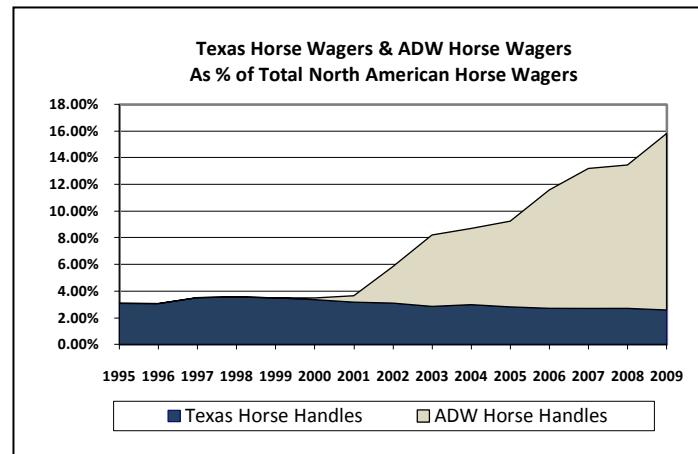
The federal law passed in 2006 is making it easier for ADW companies to execute their business plan. Since passage of the UIGEA, the number of active ADW companies taking pari-mutuel wagers has increased approximately 43 percent.

ADW companies provide a convenient, customer-friendly product that appeals to a tech-savvy audience, primarily those from 21 to 45 years of age. The companies offer free training on how to wager, using systems such as YouBet's learn-to-play Web site. The sites often offer prizes and rebates to bettors who use the ADW company's services to place wagers on pari-mutuel racetracks throughout North America.

Using ADW services, a bettor never has to leave home or set foot inside a racetrack to place a wager. The ADW business model is not that different from other newly emerging entertainment delivery mechanisms prevalent in the modern marketplace. Consumers regularly purchase and view on-demand feature movies at home on a cable or satellite service. Music lovers can easily purchase and download the latest music without ever visiting a retail music outlet.

Leveraging technological innovation to bring the track to the pari-mutuel bettor is proving to be a very successful endeavor.

In fact, the ADW companies have averaged a 19 percent per-year-growth-rate in pari-mutuel wagers placed through their systems over the past five years. As of calendar year 2009, ADW companies accounted for 13 percent of all wagers placed on North American horse races. In stark contrast, in 2002 ADW companies accounted for only 3 percent of the North American market share, almost as much as the licensed Texas racetracks in that year. While the ADW companies have continued to gain in North American market share, the Texas racetracks have gradually lost ground.



Texas pari-mutuel industry officials claim that one of the causes for the Texas loss in market share is that many Texas bettors are choosing to place their pari-mutuel wagers on imported horse races simulcast from other states using one of the ADW companies. These Texans are no longer going to a Texas racetrack to place their wagers. Industry officials say that many of their frequent bettors claim to have opened an account with an ADW company for the convenience and comfort of wagering from home. If a person wishes to wager on a simulcast race, a television, computer monitor or smartphone delivers the event. And the bettor has no reason to go to a track to watch a television, computer monitor or smartphone.

Currently, the Commission does not license these ADW companies because the Texas Racing Act does not authorize pari-mutuel wagering unless the bettor places the wager on the grounds of the licensed racetrack. Texans using ADW companies violate the Texas Racing Act. Moreover, the wagers that the ADW companies accept from Texans result in lost tax revenue to the state and lost returns to the Texas racing industry. By contrast, for wagers placed on out-of-state races at a Texas racetrack, the state of Texas receives 1 to 1.25 percent, the breeders' associations receive 1 percent, the purse accounts receive 5 to 7 percent, and the receiving track receives 9 to 15 percent.

Industry losses to ADW companies are growing. According to financial reports filed with the Securities and Exchange Commission (SEC) and the Oregon Racing Commission (which licenses most of ADW companies), its regulated online companies reported \$1.63 billion in total wagering in 2009, an increase of 11 percent from \$1.47 billion in 2008. The Oregon Racing Commission shows

that over five years, Internet wagering has grown more than 89 percent from \$0.86 billion in 2004 to \$1.63 billion in 2009.

It is impossible to determine exactly how much Texans have wagered through ADW companies. However, if the amount Texans wagered via the ADW companies into the reported national pari-mutuel handle is proportional to the amount they wagered at Texas racetracks, Texans may have bet more than \$41 million through ADW companies in 2009. For the past five years, Texans may have wagered more than \$184 million through ADW companies. In this scenario, Texas would have lost access to about \$7.2 million in total pari-mutuel revenue in 2009 and about \$31.71 million in total pari-mutuel revenue over the past five years. If the ADW companies continue to increase market share and attract bettors, losses by 2014 could reach approximately \$56 million. By 2019, losses could reach approximately \$141 million. Further losses of revenue to allocate to the horse and greyhound purses and the Texas breeders program will escalate the decline in race dates, quality of race animals in Texas racing, and the number of animals participating in the accredited Texas breeders program.

Estimated Impact of ADW Company Operations to Texas				
<i>(Loss Expressed in \$ Millions)</i>	Current Impact		Future Impact	
	2009	5 Year 2005-2009	5 Year 2010-2014	10 Year 2010-2019
Total Wagers Lost	(\$41.96)	(\$184.88)	(\$327.48)	(\$820.78)
Revenue Allocation of Wagers Lost				
State Tax	(\$0.42)	(\$1.85)	(\$3.27)	(\$8.21)
Horse Purse	(\$2.62)	(\$11.55)	(\$20.47)	(\$51.30)
Texas Breeders Program	(\$0.38)	(\$1.66)	(\$2.95)	(\$7.39)
Texas Racetracks	(\$3.78)	(\$16.64)	(\$29.47)	(\$73.87)
Total Impact to Texas	(\$7.20)	(\$31.71)	(\$56.16)	(\$140.76)

## Unregulated Racing

The proliferation of unregulated racing, particularly horse racing, remains a challenge to the Texas racing industry. A long standing tradition of “brush” or “bush” horse tracks exists across the state. There are perhaps as many as 25 to 50 of these tracks operating on any given weekend throughout the state. To a much smaller degree, greyhounds may also be participating in unregulated racing.

While the racing itself is legal, any wagering taking place at these locations likely is not. Obviously, it is difficult to determine to what degree these locations could affect the amount of money that patrons legally wager at the licensed Texas’ racetracks. For a full policy discussion on this issue, please see page 35.

## National and Regional Racing Competition

Competition in the pari-mutuel industry compares well with other sports businesses in North America. The sport must compete for customers, as well as for the competitive athletes who perform. Racing fans choose an establishment to attend based on the competitive racing events offered, the convenience of the location and the comfort of the facility. Horse and greyhound owners and trainers choose a track based on the number of racing opportunities and the prize money, or purse, available.

Studies of racing by Dr. Margaret Ray, an economist and professor at the University of Arizona, show that the size and quality of the race field drives the entertainment value of the race. Bettors prefer betting on races with more, and more evenly matched, starters, and on races with higher purses. More starters give bettors more animals to choose from and a larger pool to win.

Higher purses generally draw better quality animals that have more extensive racing records and offer wagerers a better opportunity to handicap the contestants. Bettors also prefer wagering on races that offer exotic bets, such as the Trifecta and Superfecta. These wagers offer better handicapping opportunities and the chance for a larger return.

Many external factors affect the decisions of fan, owner and trainer, but none more so than the manner in which the athletes move from track to track in search of the biggest purse. Unfortunately, and by nearly every measure, Texas tracks are struggling to compete nationally and regionally.

## National Horse Racing Competition

Thirty-two states with a total of 110 racetracks actively offer Thoroughbred racing where patrons wager. The national handle, the amount wagered on the Thoroughbred events, decreased in 2009 by nearly 10 percent. However, the prize money available to the athletes decreased by only about 6 percent, or 41 percent less than the decline in total wagered.

Why is the dip in prize money so much less than the dip in money wagered? Of the 32 states actively engaged in Thoroughbred racing, 14 now have legalized some form of alternative gaming at the track. All 14 of these states require some portion of the alternative gaming revenue to be set aside for prize money for the race athletes. In 2009, nearly \$319 million from alternative gaming went to purses. This accounted for approximately 29 percent of all prize money generated in North America and reflects a one year growth of 7 percent, a five year growth of 79 percent, and a ten-year growth of 382 percent.

A 2009 list of the top 15 states ranked by the total Thoroughbred prize money shows that more than 73 percent now have alternative gaming to supplement purses. Of the four states without alternative gaming, three offer additional forms of pari-mutuel wagering —Off Track Wagering locations (OTBs) or Advance Deposit Wagering (ADW) — to supplement the prize money. Texas is the only state in the top 15 that relies solely on pari-mutuel wagering at the licensed racetrack locations to generate all purse money. It is doubtful that Texas will make the top 15 in 2010. Texas fell two places from its ranking of 13<sup>th</sup> in 2008 and fell three places from its ranking of 12<sup>th</sup> in 2005.

<b>2009 Top 15 States Ranked By Total Purses Paid For Thoroughbred Races</b>			
<b>State</b>	<b>Races</b>	<b>Average Purse</b>	<b>Total Purse (In \$Millions)</b>
1. California <sup>º</sup>	4,782	\$32,846	\$157.1
2. New York * <sup>º</sup>	3,811	\$34,548	\$131.7
3. Pennsylvania * <sup>º</sup>	4,566	\$23,741	\$108.4
4. Louisiana * <sup>º</sup>	3,554	\$23,377	\$83.1
5. Florida *	3,249	\$22,354	\$72.6
6. West Virginia *	4,245	\$16,805	\$71.3
7. Kentucky <sup>º</sup>	2,308	\$28,822	\$66.5
8. Illinois <sup>º</sup>	2,417	\$19,324	\$46.7
9. New Jersey *	1,330	\$34,017	\$45.2
10. New Mexico *	1,731	\$17,850	\$30.9
11. Maryland *	1,397	\$20,308	\$28.4
12. Delaware *	968	\$24,829	\$24.0
13. Indiana *	1,150	\$18,015	\$20.7
14. Oklahoma *	1,248	\$16,482	\$20.6
15. Texas	1,351	\$14,324	\$19.4
<i>*Has alternative gaming supplementing the purse payments.</i>			
<i>ºHas additional forms of pari-mutuel wagering (OTBs or ADWs.)</i>			

Twenty-seven states with a total of 107 racetracks actively offer Quarter Horse, Arabian, Paint or mixed races. (A mixed race is one comprised of more than one breed of horse.) Although the agency was unable to obtain national handle amounts for these races, staff believes that the decline in handle for these breeds mirrors that of the Thoroughbred industry.

The state-by-state Quarter Horse, Arabian, Paint and mixed race purse data for the past five years reveals trends similar to those reflected in the Thoroughbred data. Unlike the Thoroughbred industry, however, the Quarter Horse, Arabian and Paint industries are concentrated in five major states: New Mexico, California, Oklahoma, Louisiana and Texas. Two of these states, California and Texas, saw reduced racing opportunities over the five-year period. The other three, New Mexico, Oklahoma and Louisiana, increased racing opportunities by 1 percent, 46 percent and 21 percent respectively over the five-year period. The three states experiencing increases in racing opportunities have authorized additional forms of gaming at their pari-mutuel facilities; the two states with reduced racing opportunities have not.

A 2009 list of the top states ranked by the total purses paid to the athletes shows that alternative gaming supplements prize money in eight of the top 15. Of the seven states without alternative gaming, three offer additional forms of pari-mutuel wagering — Off Track Wagering locations (OTBs) or Advance Deposit Wagering (ADW) — to supplement the prize money. While Texas ranks 5<sup>th</sup> on this list for 2009, its total purses paid is more than \$9 million short of the fourth place spot and nearly \$19 million below the top spot, which is a dramatic drop in performance in light of the state's history in Quarter Horse racing.

2009 Top 15 States Ranked By Total Purses Paid For QH, AR, PA, or MX Races			
State	Races	Average Purse	Total Purse (In \$ Millions)
1. New Mexico *	1,380	\$21,363	\$29.5
2. California <sup>o</sup>	1,523	\$14,593	\$22.2
3. Oklahoma *	1,324	\$16,227	\$21.5
4. Louisiana * <sup>o</sup>	1,401	\$14,073	\$19.7
5. Texas	1,058	\$10,164	\$10.8
6. Indiana *	178	\$20,028	\$3.6
7. Iowa *	187	\$16,663	\$3.1
8. Florida *	160	\$11,779	\$1.9
9. Arizona <sup>o</sup>	354	\$4,746	\$1.7
10. Colorado	120	\$11,280	\$1.4
11. Delaware *	95	\$11,424	\$1.1
12. Idaho	270	\$2,702	\$0.7
13. Minnesota *	73	\$8,936	\$0.7
14. Oregon <sup>o</sup>	140	\$4,518	\$0.6
15. Michigan	128	\$4,401	\$0.5
*Has alternative gaming supplementing the purse payments.			
<sup>o</sup> Has additional forms of pari-mutuel wagering (OTBs or ADWs).			

## Regional Horse Racing

### Competition

Currently five horse and three greyhound racetracks operate in Texas. Fourteen horse racetracks and one greyhound racetrack operate in the surrounding states of Arkansas, Louisiana, New Mexico and Oklahoma.

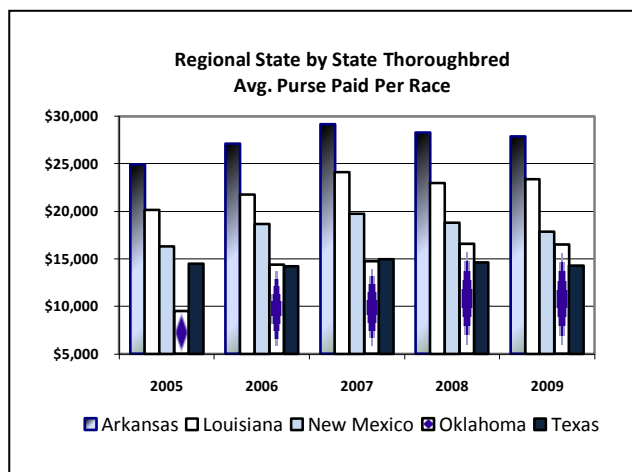
For the past five years, Texas has not fared well in the regional competition to attract the best athletes to its tracks. While the numbers vary, Thoroughbred, Quarter Horse, Arabian, Paint and greyhounds all are experiencing a downward trend in Texas. This is not the case in Texas' neighboring states.

Since 2005, neighboring states have generated significant increases in Thoroughbred prize money from alternative gaming operations. Arkansas, Louisiana, New Mexico and Oklahoma have increased their total Thoroughbred prize money by 6 percent, 23 percent, 30 percent and 140 percent respectively during the past five years.

Thoroughbred – Regional 5 Year Change (2005-2009)					
State	Change In P-M Purse	Change In Gaming Purse	Change In Total Purse	Change In Avg. Purse	Change In # of Races
Arkansas	(\$523,300)	\$1,400,000	\$876,700	\$2,958	(28)
Louisiana	\$5,810,046	\$9,780,679	\$15,590,725	\$3,243	202
New Mexico	\$5,125,432	\$2,044,690	\$7,170,122	\$1,519	278
Oklahoma	\$2,245,589	\$9,738,089	\$11,983,678	\$6,994	343
Texas	(\$7,764,740)	n/a	(\$7,764,740)	(\$192)	(517)

Additional purse funds have allowed tracks in the neighboring states to add more racing opportunities and/or increase the average prize money paid per race. Tracks in these states attract more and higher-quality athletes and offer a better quality racing product, resulting in a growing Thoroughbred industry.

In contrast with the regional racetracks' considerable increases in purses, Texas racetracks saw a 29 percent decline in total prize money for Thoroughbred racing. The overall decrease in the amount of money wagered is part of the reason for the decline. Exacerbating the situation, many of the athletes are no longer competing in Texas because their owners and trainers have taken their animals to neighboring states with higher prizes. To remain somewhat competitive, Texas tracks reduced Thoroughbred racing opportunities by 517 to keep average purses as high as possible.



Still, Texas continues to lose ground regionally and nationally. As of 2009, the average Thoroughbred purse per race in Texas was \$14,324, or more than 28 percent below the regional average of \$20,046 and nearly 32 percent below the national average of \$21,061.

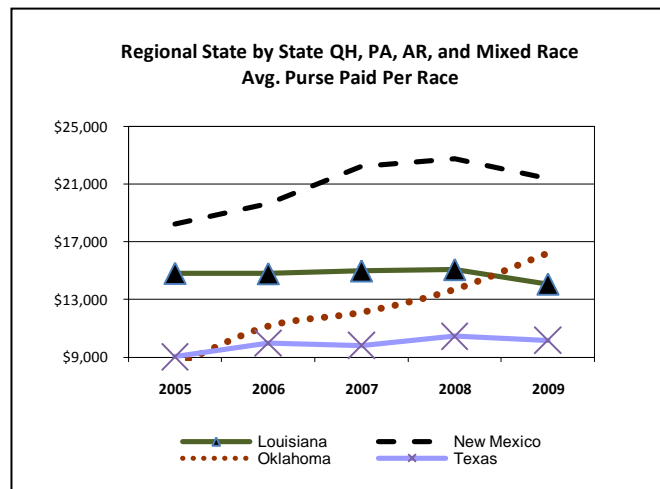
Since 2005, Louisiana, New Mexico and Oklahoma have seen significant increases in their total prize money for Quarter Horse, Arabians, Paints and mixed races. The prize money available in these states increased by 14 percent, 19 percent and 180 percent respectively during the past five years.

With additional purse funds, tracks in the region have either added more racing opportunities or increased the average prize money per race. In some cases, tracks have done both. The result is a growing industry for breeds within these respective states. The tracks attract more and higher-quality athletes to compete and offer better quality racing to the consumer.

QH, AR, PA, & Mixed Race – Regional 5 Year Change (2005-2009)					
State	Change In P-M Purse	Change In Gaming Purse	Change In Total Purse	Change In Avg. Purse	Change In # of Races
Louisiana	(\$330,236)	\$2,825,148	\$2,494,912	(\$748)	239
New Mexico	\$3,300,052	\$1,363,126	\$4,663,178	\$3,128	19
Oklahoma	\$5,045,739	\$8,764,281	\$13,810,019	\$7,775	416
Texas	(\$938,655)	n/a	(\$938,655)	\$1,128	(236)

Unfortunately, during the same period, Texas racetracks have experienced an 8 percent decline in total prize money for Quarter Horse, Arabians, Paints and mixed racing. The decline is the result of decreased wagering and the exodus of athletes to neighboring states with higher prizes. Texas racetracks have reduced racing opportunities by 18 percent to increase the average purse per race to be more competitive in the region.

Although these efforts did yield a slightly higher average purse per race, Texas prize money still lags behind the region and nation. As of 2009, the average purse per race in Texas for these breeds was \$10,164. That number stands 36 percent below the regional average of \$15,773 and 25 percent below the national average of \$13,571.



## National & Regional Greyhound Racing Competition

Since 2005, the Texas greyhound industry has experienced significant declines. Purses dropped 33 percent due to decreased wagering. Additionally, the Texas tracks lost greyhound athletes to other racetracks in Arkansas, Florida, Iowa and West Virginia. These states have legalized alternative gaming at their pari-mutuel facilities and set aside prize money from the gaming revenue for purses.

Texas Greyhound - 5 Year Change (2005-2009)					
State	Change In P-M Purse	Change In Gaming Purse	Change In Total Purse	Change In Avg. Purse	Change In # of Races
Texas	(\$1,656,024)	n/a	(\$1,656,024)	\$241	(6,731)

To counter, the Texas greyhound racetracks reduced greyhound racing opportunities, as did the Texas horse racetracks, in an attempt maintain or raise the average purse money per race.

### Current Trends and Industry Reaction

The pari-mutuel racing industry is evolving across the nation, producing hybrid establishments like Racinos (pari-mutuel facilities with other forms of on-site gaming available), in a radically changing environment. The state-by-state data for the past five years reveals an alarming development: tracks in states without alternative forms of gaming have cut racing opportunities. Following that trend, Texas tracks have slashed the number of live racing dates.

Even with fewer live dates, the average purse for every kind of racing in Texas lags behind states where alternative forms of gaming exist. Simulcast signals from other racetracks have replaced the live race opportunities. This practice reduces the overall total prize money awarded during a given race meet.

Although reducing racing opportunities helps prop up purses in the short term, there are negative long-term effects. With fewer racing opportunities and less overall money available, there is a reduced incentive for breeders to produce more horses or to stay in Texas. The pool of quality Texas-based owners, trainers and jockeys is dwindling. Racing-related businesses, such as stables, hay suppliers, tack vendors and food service businesses that provide products or services either to the associations or to the occupational licensees or both also suffer.

Currently, there is a great deal of anxiety about the status of horse racing in Texas. In an attempt to adjust to the changing landscape and to meet the continuing challenges presented at the national and regional levels, certain industry participants are considering far-reaching cuts to and consolidation of race dates.

Consolidation and deep cuts are a path the greyhound industry has already chosen. In early 2009, the Texas greyhound industry, led by the Texas Greyhound Association (TGA), headed an initiative to radically change the greyhound racing landscape in Texas.

In a presentation to the Commission, a TGA spokesman said:

“While the cost of raising greyhounds has increased, purses have remained static or decreased for the past several years. During this same time frame, the number of greyhounds and greyhound breeders in Texas has declined. The TGA has always favored year-round racing at each greyhound racetrack. However, the TGA has come to recognize that the greyhound industry needs to make some hard choices to keep greyhound racing viable in Texas.”

The TGA proposal consolidated year-round live racing to one Texas greyhound racetrack. Under the plan, the two remaining racetracks will host one week of live racing per year with a fixed prize per race. All three greyhound racetracks continue to offer simulcast wagering on racing from other racetracks to generate prize money for the Texas greyhound tracks. The two racetracks running the short meets keep only enough prize money to cover their purses and transfer the remaining money to the year-round track. The TGA testified to the Commission that they believed that their proposal would:

- Attract more greyhounds to compete by positioning the one remaining Texas racetrack running year-round to offer the highest purse money of any non-casino facility in North America.
- Encourage Texas greyhound breeders to continue their operations due to higher prize money at the remaining year-round Texas racetrack.
- Showcase greyhound racing at the two remaining Texas greyhound racetracks in a “county fair” atmosphere similar to that of Gillespie County Fair, a county fair horse racetrack currently operating in Fredericksburg, Texas.
- Enable all three greyhound racetracks to remain viable.
- Reduce operating cost for the Texas Racing Commission.

The Commission adopted the TGA plan for calendar year 2010 and the first eight months of 2011. The Commission will receive updates on the progress of the plan during the upcoming race date allocation process.

### **Proposed Solutions to the Decline and Potential Impact on the Agency**

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In the past, the racing industry has attempted to address these pari-mutuel decline issues primarily by working on legislation to expand authorized gaming at the race tracks. Members of the industry currently support legislation permitting video lottery terminals (VLTs) at pari-mutuel racetracks. The industry has not pursued other approaches, such as off-track betting outlets and account

wagering, also referred to as Advance Deposit Wagering, in recent years. However, testimony received through the Sunset review process did yield a proposal to authorize account wagering.

Past legislation has varied widely. Bills have ranged from authorization of VLTs and electronic or traditional poker gaming at race tracks to approval of VLTs with the creation of a new gaming commission encompassing the functions of both the existing Lottery and Racing Commissions.

Through the consideration of the legislation and the fiscal note process, the Commission has reviewed the potential impact of expanded gaming on the Commission, its structure and regulatory programs. Any expansion of gaming at the racetracks, regardless of the format, would involve regulatory oversight by the Commission and necessitate increases in appropriations and FTEs to ensure the proper level of oversight. The most significant costs to the agency for additional oversight would generally include additional licensing, auditing and investigative functions with corresponding increases in FTEs. However, the existing organizational structure already includes the regulatory functions needed to regulate expanded gaming. Therefore, responding to a legislative change would require an increase in the number of staff in those existing functional areas. The agency would need to develop some additional technical expertise.

Similarly, any expansion of gaming that includes Internet gaming and/or ADW would affect the Commission. Some states that authorize ADW have a licensing process in place to ensure that the entities conducting the wagering are appropriately and continuously reviewed when a license is issued. Depending on the type of ADW the legislature may authorize, the agency is well-positioned for licensing and auditing such systems.

The agency has also reviewed the impact of proposed gaming legislation taking into consideration its impact on existing inactive racetrack licenses. Expanded gaming could result in the building of overdue tracks and expansions of racing schedules at active tracks. The agency routinely forecasts the resources needed to open a track based on the projected live and simulcast racing schedule. Resources include personnel as well as some capital expenditures. With the industry growth that expanded gaming could bring, the agency would need additional staffing to oversee the live racing, including the stewards or judges, veterinarians and test barn supervisors, licensing personnel and investigators.

For any of the industry-proposed solutions, the agency would be well-positioned to address these needed resources through the use of contingency appropriation riders in the General Appropriations

Act. The Legislative Budget Board has supported the Commission's use of contingency appropriation riders to address the fluctuating staffing and resources needed with racetrack regulation.

While the legislature and industry consider potential solutions, the Commission will continue to allocate resources as efficiently as possible and work with tracks to ensure that agency regulations are both fair and cost-effective.

Recognizing that the legislature may or may not adopt industry proposed solutions, one of the recommendations in the Sunset Commission Staff Report is to continue the Commission for six years, instead of the standard 12 years. According to their report, this will allow the legislature the opportunity to re-evaluate the Commission's role in regulating a declining industry in a timely fashion.

### **Technological Advances in the Industry**

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Technology continues as a fundamental concern for the racing industry. Complex computer systems called totalisators ("totes") process all pari-mutuel wagering at Texas racetracks. Totalisator systems consist of central processing servers, tote boards, wagering terminals, operating consoles, routers, etc. Each of the three major tote companies, AmTote International, Scientific Games and United Tote, provides services to the racetracks in Texas.

### **Industry Issues: Consolidation and Staffing**

In the recent past, every pari-mutuel track had a tote central processing server on-site. In an attempt to reduce costs, tote companies offered more cost-effective methods of operation. To cut the price for totalisator-contracted services, the tote companies offered centralized server operations that networked multiple racetracks through one central processing server. In other words, racetracks no longer had on-site servers, but were networked to off-site servers. The industry embraced this concept and stand-alone single-site server operations ceased to exist. Now the tote companies are consolidating many of the networked server sites into regional central processing servers. Ultimately, they hope to have just two U.S. server sites per tote company. Today, Texas does not host a stand-alone server site or a networked server site. All Texas racetracks are networked through a regional central processing server located outside the state.

The tote companies are exploring additional ways to reduce costs. One concept involves shifting responsibility for certain tote system operations to racetrack employees. Texas rules, as in most states, assign specific racing officials with certain responsibilities and tasks. Before implementation of

this new approach, the Commission would have to review the rules of racing to analyze the specifics of the new staff roles, responsibilities and tasks.

### **Regulatory Oversight of Wagering Systems**

Regulation of pari-mutuel wagering and the totalisator systems that process this betting has been evolving. The Commission has worked in collaboration with other Racing Commission International (RCI) member jurisdictions to achieve more efficient and consistent regulation in this area. RCI is the national association of government pari-mutuel regulators. The adoption of RCI model tote standards rules is one example of this successful collaborative effort. RCI is leading the initiative to combat wagering system fraud by advocating a national program of independent monitoring and fraud investigation. RCI proposes to accomplish this via two methods: an independent review of totalisator systems by certified testing laboratories; and independent real time monitoring of pari-mutuel wagering. Supportive of RCI's efforts in these areas, the Commission reviewed the two proposed regulatory methods to determine how they aligned with the short-term and long-term goals and needs of the agency.

The first method, independent review of totalisator systems by a certified testing laboratory, fit the agency's short-terms needs best. The agency contracted with Gaming Laboratory International (GLI) in July 2008 to perform an independent review of tote systems operating at Texas racetracks. By July 2009, GLI had tested the tote systems for each of the seven Texas racetracks. The Commission provided GLI's findings to the tote companies and requested written comment and feedback. The Commission's Wagering and Racing Review Division prepared a final compilation report — this included both GLI's final report and the tote companies' written comments — and submitted it to the Commissioners in October 2009. The final report showed:

- That GLI validated the integrity of the tote systems operating at the Texas racetracks.
- The areas for improvement in tote system operations.
- The need for the Commission to adopt wagering terminal standards.
- A need to update Commission rules to maintain continuing advances of tote system technology.

By using a certified testing laboratory, the agency satisfied a finding issued by the State Auditor's Office (SAO) in May 2006 that the agency strengthen its Electronic Data Processing (EDP) reviews of the tote systems to ensure the data coming from and stored within the systems is reliable. The agency requested and received additional appropriations to continue pursuing this goal during the

2010-11 biennium. The agency will include a request to continue funding for this project in the 2012-13 biennium.

As a result of the recommendations issued by GLI, the agency determined that it needed technical assistance to develop tote terminal standards and to review Commission Rules concerning totalisator standards. The agency awarded a contract to BMM Compliance in April 2010 to review the applicable rules and standards. After its review, BMM Compliance will submit written recommendations for rules and standards regarding tote terminal and wagering system technology advances. The Commission's goal is to adopt BMM's final recommendations no later than January 2011.

RCI's second method to combat wagering system fraud, an independent real-time monitoring of pari-mutuel wagering, aligns with the agency's long-term goals. However, the tote industry must fully implement Wagering Transaction Protocol (WTP) to develop a system that can monitor racetrack pari-mutuel pools. WTP is a communication protocol used to transfer wagering data between the racetrack running the race and the off-track wagering location betting into its pari-mutuel pools. Full-scale implementation of WTP is not expected until 2015. The agency will be in a better position to assess the effectiveness and need for this regulatory tool during the next strategic planning period. The Commission is well positioned to assess WTP as an option, since it currently has its own pari-mutuel regulatory program. That program combines two effective tools: an independent testing laboratory review of the tote systems; and a Texas monitoring system that is designed to operate using the current Inter Tote System Protocol (ITSP).

## Sunset Review

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A productive Sunset review process, which began in the summer of 2007, resulted in a number of Sunset recommendations. The Sunset Commission report concluded that the Commission is well-managed and is currently meeting its mission, but is increasingly challenged because the Racing Act has not kept pace with changes in the industry — specifically the decline in wagering and overall industry profits. According to the report, the significant decline has resulted in increasing limitations on the Commission's ability to oversee racetrack license holders, ensure adequate racing facilities, and respond to changes in wagering technology.

The agency agreed with the Sunset Commission's recommendations for the following statutory changes:

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SPECIAL SESSION POSTPONES ACTION  
ON AGENCY'S SUNSET LEGISLATION  
UNTIL 2011.

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1. Require the commission to review each racetrack license on a periodic basis and develop renewal criteria along with associated sanctions for failure to comply.
2. Clarify the Commission's revocation authority and ability to refuse to renew a racetrack license.
3. Eliminate uncashed winning tickets as a source of Commission revenue.
4. Clarify that all unlicensed entities are prohibited from accepting wagers placed by Texas residents.

The agency recommended a modification that would have changed the Racing Act to allow the Commission to require racetrack license holders to post security at any time, instead of only when a new license is issued. This would have allowed the Commission to ensure that licensees fulfill their statutory obligation to build their tracks and run live race dates.

The second area of recommendations related to improvements in the agency's occupational licensing program. The Racing Act provides that all people involved in racing must be licensed without consideration of the individual's level of involvement in pari-mutuel racing. This means everyone, from the racetrack parking lot attendant to the chef, must be licensed and submit fingerprints. Sunset concluded that licensing to that level is not an efficient use of resources and recommended two statutory changes that would have enhanced the agency's occupational licensing program:

1. Require the Commission to license only those individuals who can affect pari-mutuel racing.
2. Require the Commission to obtain criminal history reports every three years.

The agency agreed with these two recommendations and has already adopted a change to the rule to obtain criminal history reports on a three year rather than a five year basis. With DPS' and their contracted vendor's assistance, the agency also is moving to electronic fingerprinting equipment, phasing out the outdated, time-consuming ink and paper fingerprinting. Using this new technology to fingerprint approximately 5,000 licensees a year means the agency will get a much faster turnaround on any criminal histories that may exclude a person from licensure.

Noting that the Commission is regulating an industry in decline, Sunset's third recommendation is to continue the Commission as an independent agency for six years, instead of the standard 12 years. According to their report, "while the State should continue regulating the pari-mutuel racing industry, the future of the industry is unknown at this time and the Commission may need additional tools to again readjust to a further decline or a revived industry."

The changes that the Sunset Commission recommended provided clearer statutory authority and gave the Commission added flexibility to oversee today's racing industry. Despite the vast amount of time, effort and resources devoted by the Racing Commission, the Sunset Commission and numerous legislators and their staff members over a two year period, the bill failed to pass. The Commission was one of five agencies whose Sunset legislation failed passage. Governor Perry called a Special Session in July to continue the five agencies until 2011. The bill passed during the Special Session limits the Sunset Commission's review to the appropriateness of recommendations to the 81<sup>st</sup> Legislature and authorizes the Sunset Commission to include any other recommendations it considers appropriate.

The Commission remains committed to the Sunset process. Although the Sunset Commission recommendations were not enacted, the agency did respond to the Sunset's recommendations for management actions. The agency's implementation of the recommendations resulted in an expedient method of obtaining criminal history reports through electronic fingerprinting, a process for oversight of practical examinations for licensing horse trainers, more consistent oversight from racetrack to racetrack by changing staffing patterns and requiring better reporting on enforcement actions, and improved integration of field staff effort with central office efforts.

### **The Development of National Standards**

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The national nature of the racing industry applies to the regulatory effort as well. Racing participants often race at tracks in several states resulting in the desire for regulatory consistency across state lines. To address the industry's quest for uniformity, racing commissions across the U.S. are working together through the RCI, the national association of government pari-mutuel regulators.

The Commission has been a member of RCI since February 2006. Through its membership, Texas is directly involved in the intensive national dialogue and active assessment of the status of racing regulation. The Commission's Executive Director is currently serving a third term on the RCI board of directors. In recognition of her effective and tireless commitment to ensuring racing integrity, this year her fellow Executive Directors selected Texas' Executive Director as the recipient of the Len Foote Award, the highest award presented to an Executive Director.

Board membership has enhanced the Commission's ability to increase other jurisdictions' awareness of Texas' regulatory priorities and the strict standards that exist in the Lone Star State.

For example, the Commission's totalisator standards were one of the key documents that helped formulate the national totalisator standards adopted as a part of RCI's wagering integrity initiative. Additionally, the Commission's Compliance Audit Administrator now chairs the RCI Pari-mutuel Auditors Committee. This committee provides technical assistance in drafting wagering model rules and helps establish best practices across jurisdictions.

Participation in the development of national standards has also led the agency to pursue regional cooperation with the border and regional states of Arkansas, Colorado, Kentucky, Louisiana, New Mexico and Oklahoma. This initiative is resulting in regularly scheduled meetings where member states exchange policy and practice information to enhance and make more consistent the enforcement efforts throughout the region. This directly supports the RCI's efforts to adopt model rules throughout the country and in other participating racing jurisdictions.

### **Increasing Federal Government Interest in Racing**

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Potential changes at the federal level may affect the sport of racing as well as the states' racing regulators. A focus on performance-enhancing drugs in all major league sports, including horse racing, by the House Subcommittee on Commerce, Trade, and Consumer Protection of the Committee on Energy and Commerce, has been underway for some time. This subcommittee has primary jurisdiction over the commercial practices of sports and gambling, including the Interstate Horseracing Act (IHA) which authorizes simulcasting across state lines. Two catastrophic injuries to horses, one in the 2006 Preakness and one in the 2008 Kentucky Derby, brought the discussion to the forefront.

In late May of 2008, the subcommittee issued a request to RCI for information from the "multitude of various racing commissions" it represents, noting that racing lacks a central regulatory body or "league" to govern the rules of the game.

On June 19, 2008, the subcommittee conducted a hearing entitled, "Breeding, Drugs and Breakdowns: The State of Thoroughbred Horseracing and the Welfare of the Thoroughbred Racehorse." Invited testimony covered a range of issues regarding Thoroughbred racing from race-day medication to equine health and safety. There was ample discussion on the need for reforms in these areas — whether attained through federal intervention or an industry-led central body.

Less than a week before the 2010 Kentucky Derby, a member of the Senate Committee on Commerce, Science and Transportation and a member of the House Committee Energy and

Commerce issued a new request to RCI for answers about the current state of horse racing in the United States. The letter again noted that the sport of horse racing, unlike every other major professional sport, lacks a governing body or 'league' that is capable of imposing mandatory regulations for universal compliance.

Observers believe that the 2008 Congressional hearing with the threat of federal intervention served as a catalyst to bring racing stakeholders together to find common ground for industry reforms on several fronts.

Through the RCI Regulatory Veterinary Committee, racing jurisdictions are considering guidelines and recommendations for pre-race horse exams and the use of non-steroidal anti-inflammatory medications and corticosteroids. The Racing Medication and Testing Consortium, a not-for-profit organization consisting of 25 racing industry stakeholder members, is providing research into pre-race exams to ensure the horse is not being compromised. Initiatives by the National Thoroughbred Racing Association are designed to certify race track adherence to alliance safety and integrity standards.

### **Interstate Compact May Facilitate State Regulation of Racing and Wagering**

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Following an intensive study, RCI, in conjunction with the Council of State Governments and an Advisory Steering Committee comprised of several industry stakeholders, developed interstate compact language that will allow racing to adapt to the multi-jurisdictional dimensions of racing. If widely adopted, the compact would provide for collective and uniform action while preserving the prerogative of the individual jurisdictions to continue their regulation. Its proposed structure avoids the creation of an additional and potentially redundant costly layer of oversight.

RCI, working with the Council of State Governments, has targeted the 2011 legislative sessions for initial consideration of a racing compact by the various states.

Staff has just begun its in-depth analysis of the compact's model legislation to assess the viability of Texas' participation. If the Commission finds it would be in the best interest of Texas racing to participate in an interstate racing compact, a recommendation will go to the legislature for a final determination.

## INTERNAL ASSESSMENT

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### Internal Assessment

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With new leadership at the Commission level, the agency continues to evolve and change. A new Chairman, appointed by Governor Perry in October 2008, chaired his first meeting on December 2, 2008. The Commission has welcomed three new appointees since that time. Executive staff has worked with this new leadership to continue examining agency operations and exploring ways to improve regulatory efforts.

Responding to and regulating an industry in decline challenges the agency to rebalance its priorities in a timely, flexible manner. It has resulted in a small and shrinking number of staff. The Commission's challenge to provide staff and regulatory oversight under such conditions is unique among state agencies.

### Legislative Changes to the Racing Act

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#### TxRC Funding Sources and Issues

It is difficult to appreciate some of the activities of the 81<sup>st</sup> Legislature without first reviewing a few critical points from the prior session. During the 80<sup>th</sup> Legislative Session, the Commission sought to ensure the Racing Act received essential and significant updates. The Commission requested the elimination of both the uncashed winning tickets, commonly referred to as outstanding tickets (OUTS), and the 50 percent of the greyhound breakage as agency revenue sources. Over time, revenue from those sources has proven unreliable in supporting the costs of regulation because the general decline in wagering has resulted in less money overall. Also, innovations in betting technology mean fewer uncashed tickets, again reducing the total revenue. OUTS revenue is a significant portion of the agency's funding while the greyhound breakage is not.

Legislation introduced during the session would have allowed the racetracks to retain all of these funds, with the agency recouping costs by adjusting the racetrack fee structure. However, language in the final bill changed the agency's recommendation. It eliminated only the 50 percent of the greyhound breakage as a funding source, retaining the OUTS as a significant source of revenue for the agency.

Because the OUTS were not eliminated as a source of funding during the 80<sup>th</sup> Legislative Session, the issue came to the forefront again during the Sunset review process. Based on Sunset staff's review, the Sunset Commission recommended eliminating the uncashed winning tickets as a revenue source.

Recognizing the urgent need to compensate for fluctuations in the agency's cash flow, the Commission's Committee on Funding recommended exploring all options for obtaining alternative revenue sources. This proved to be prudent as the 81<sup>st</sup> Session closed without taking action on the Sunset Commission recommendations. By documenting need through the legislative appropriations process, the agency was successful in obtaining \$1.5 million in General Revenue Funding for the FY 2010-2011 biennium.

### **Regulating with Reduced Resources**

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The Commission is fortunate to have a dedicated, experienced staff comprised of varied occupations. Many of the positions do not work the traditional weekly state schedule. The jobs routinely require hours that include evenings, weekends and holidays to match the racing at the tracks.

The agency's turnover rate during FY 2008 was 17.2 percent, mirroring the state's average of 17.3 percent. Overall employee satisfaction, as rated in the Survey of Organizational Excellence, is nearly identical to two years ago. In the prior survey, respondents noted significant improvements in 13 of the 20 areas surveyed. Out of the 14 constructs for which results are available in the current survey, six are areas of substantial strength, four are areas viewed more positively than negatively, and only one, fair pay, scores in a range to be of serious concern. Generally, the agency is sustaining the positive trends evidenced in the prior survey.

Budget restrictions and cash flow problems keep the agency below full staffing levels. Still, the agency continues to evaluate the need for additional staff to ensure quality regulation and optimum working conditions for all staff.

The agency has an accrued cumulative liability of approximately \$500,000 in compensatory-time, FLSA-overtime and vacation time owed to current employees. Because of increased workload and statutory requirements that set specific staffing levels at the racetracks during live race days, the agency has not been able to sustain an overall decrease in this liability. The agency simply does not have enough employees in certain positions, such as veterinarians, test barn supervisors, and judges and stewards, to provide meaningful relief of this liability.

Another effect of the prior budget cuts is that some managers consistently perform field staff work in addition to their managerial responsibilities. For example, the Chief Steward works full race meets and he, along with the Chief Veterinarian, must fill in for their staff from time to time. Additional

staffing in these areas would allow the agency to reduce the liability and enhance management practices.

The uncertainty of the racing industry has made it difficult for the agency to attract staff. The unusual hours that come with working in an entertainment industry are also a deterrent. Additionally, of the current workforce, 28 employees, or more than 44 percent of the workforce, will be eligible for retirement over the next five years.

Management is considering several options to ensure succession planning for these pending retirements. Additionally, management is exploring what changes the agency can make that will both attract and keep a stable workforce.

### **Consistency and Improvements in Regulating**

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#### **Continued Policy Development**

The agency continues to identify critical areas for the improvement of racing regulation, including:

- Non-pari-mutuel regulation
- Enhanced penalties
- Equine and canine safety
- Enforcement inspections

#### **Non-Pari-mutuel Regulation**

Before the legislature passed the Texas Racing Act in 1986 and the state's citizens approved pari-mutuel racing in a statewide referendum in 1987, several well-known and respected horse racetracks already existed in Texas. These tracks all conducted racing without authorized betting. There were tracks in Bandera, Fredericksburg, Junction, Goliad, Manor, Nacogdoches and Del Rio, to name but a few.

After the Racing Act became law, the Commission adopted rules in an attempt to provide at least minimal regulation for these traditional, but non-pari-mutuel, horse tracks. To register with the Commission, the American Quarter Horse Association would have to approve the racetrack or the track would have to provide Commission-approved stewards, horse identifiers, observers, a veterinarian and a test barn. The Commission required each track to test the race animals for drugs and prohibited participants from engaging in any activity at a non-pari-mutuel track that would be a violation if the participant engaged in the same activity at a pari-mutuel track. These rules remained in effect until the Attorney General issued Opinion Letter JM-1134 in 1990. The opinion concluded

that the Racing Act did not provide adequate standards to regulate non-pari-mutuel racing, and that it was therefore unconstitutional. As a result, the Commission repealed its non-pari-mutuel rules in late 1990.

In 1991, the legislature amended the Racing Act to address the shortcomings identified in the Opinion Letter JM-1134. However, since that time the Commission has not attempted to regulate these tracks for a number of reasons, foremost because resources are limited under the current budget. The largest unregulated racetrack in the state is Las Palmas Downs in Mission.

There have been a number of incidents in the past year or more that raise the question of whether the Commission should take a more active role in regulating non-pari-mutuel tracks, particularly horse tracks.

Unregulated tracks raise concerns about horse safety. For example, Las Palmas Downs allows two-year-old quarter horses to compete before March 1 of each year. This would not happen if the state regulated the track because Commission and American Quarter Horse Association rules do not allow horses this immature to compete.

Races at unregulated tracks raise questions about the integrity of the information in a pari-mutuel track's program. A horse that wins at an unregulated track gains a competitive edge that is not reflected in the official program when that same horse later races at a pari-mutuel track. Horses can show up at pari-mutuel tracks and be represented as maidens — a maiden is a horse that has not won a race — when they have considerable experience at non pari-mutuel, or bush, tracks.

A number of recent news reports concern police raids of horse racing rings that included illegal gambling operations. News stories during the past two years also have documented violence at these tracks. Two individuals were shot at an Ector County track and a horseman was killed at a track in Lubbock County.

A key attraction of this racing for the patrons may be the opportunity to engage in illegal gambling. The illegal racetracks typically make money by charging admission, selling concessions and acting as bookmaker for the bettors. Unlike Texas' pari-mutuel tracks, these private tracks do not have to bear the costs of drug testing, contribute to the Texas-bred program, or pay taxes to the state. Tracks that sponsor or permit illegal wagering divert customers away from licensed tracks and make it more difficult for the state to have a healthy horse racing industry.

Recent Commission efforts to educate local law enforcement about the dangers of these tracks have proven effective. Commission personnel provided training to Texas sheriffs at their annual conference. Local law enforcement agencies currently are investigating several of these tracks. The Texas Department of Public Safety is starting to enforce the Texas Racing Act for racing without a license. As the result of an investigation in Falls County, the operator of a bush track was sentenced to 3 years deferred adjudication and fined \$10,000. The Commission's field staff, who work daily with a wide variety of horsemen, estimate that there are 25 to 50 unregulated tracks operating in the state. The Texas Greyhound Association reports that there may be two "match racing" tracks for greyhounds in Texas.

The problem of unregulated racetracks is a multi-jurisdictional issue: the Racing Commission, the Department of Public Safety, the Texas Animal Health Commission, the Comptroller's office and local law enforcement maintain overlapping authority. Informal discussions with these agencies indicate that they have the same difficulties in sizing the problem that the Commission has.

The Commission may increase its monitoring of unregulated horse racing and may propose new rules or seek new legislation to address the problem.

### **Enhanced Penalties – Referral to Commission**

The Act and the Rules provide that the board of stewards or judges may refer a case to the Commission for further action if the board believes that the penalties available to it are not sufficient. A board may choose to do this because the penalties available to it are limited to \$5,000 and a suspension of up to one year. The Commission, however, may impose any financial penalty and also may revoke a license entirely. Unfortunately, the Rules do not set out the procedure to make this referral. It is uncertain whether the Commission may enhance a board's penalties directly, or whether the case must first be referred to the State Office of Administrative Hearings for a full hearing on the merits of the case. The Commission currently is evaluating this policy issue through a review of Chapter 307 (16 TAC 307.1 et seq.). If it is not possible for the Commission to resolve this issue through a rule change, the agency may propose a legislative change.

### **Equine and Canine Safety**

Protecting the health and safety of the animal athletes is a primary agency responsibility. Several factors, including the class of the animal and its training, the animal's physical condition, and the physical condition of the racetrack, potentially can cause or contribute to an injury. With so many factors to consider, it can be difficult to pinpoint the specific reason for any one injury.

Regulators and stakeholders in both the greyhound and horse industry are engaged in various research studies. Over time, these studies will provide meaningful information that should lessen the likelihood of serious and catastrophic injuries.

For example, over time, bones in a racehorse can weaken from the type of cyclical, repetitive stress that is produced by training. In the near future, perhaps within five years, an analysis of certain chemicals or substances produced by an animal may provide a reputable, accurate way to identify horses at risk for catastrophic injury from weakened bones.

An aggravating factor in this type of bone failure is muscle fatigue. Fatigued muscle puts extra pressure, or load, on the animal's tendon and ligament support structures, which no longer protect against bone overload. Current research aimed at identifying muscle "fitness" with cell respirometry — a measure of how efficiently a cell uses oxygen — may allow an objective assessment of a racing animal's fitness. This likely will become an invaluable training aid and should contribute to safer racing.

Drugs available now, and others soon to be on the market, promise to move the point of muscle fatigue beyond racing distances at which structural overload occurs. Racing regulators may face significant challenges balancing the inherent injury-sparing advantages of the medications against questions concerning wagering integrity. While racing injury rates may improve, these medications may create a difficult-to-balance handicapping conundrum, even when measured against safety enhancements.

Beyond the study of factors that may contribute to injuries, the Commission's main focus is on track surface variables. For example, through the efforts of several university-related studies and the National Thoroughbred Racing Association's Track Safety Alliance, ongoing research aims to identify the contributing variables relating to track surface components and makeup as these affect injury rates. This kind of research should move the industry forward in the effort to reduce injuries in racing animals.

The Equine Injury Database, coordinated and underwritten by The Jockey Club and the Grayson-Jockey Club Research Foundation, is leading to advancements. The national database aims to identify the frequency, types and outcomes of racing injuries using a standardized format; identify markers for horses at increased risk of injury; and serve as a data source for research directed at improving safety and preventing injuries.

The Equine Injury Database is a module of the InCompass' Race Track Operations program which most racetracks in the United States use. Veterinarians designed the database to be a comprehensive tool for both regulatory veterinarians and racetrack management to record and analyze injuries at the track.

The cumulative injury data currently being archived should more clearly define the equine population demographics, making it easier to assess those horses likely to be at greatest risk. This will lead to policy directed toward more sensitive and more specific pre-race inspection processes. The information mined here should allow for significant reduction in injury rates by standardizing pre-race examinations between and within the various racing jurisdictions.

However, over the next few years, the mostly likely contributor to a significantly reduced injury rate may be a new racing landscape. Texas racetracks are rethinking and resizing their business model. Following a nationwide trend, many Texas horse and greyhound tracks are hosting shorter racing seasons with considerably fewer racing opportunities; therefore, fewer participants. In the near term, it is likely that fewer racing opportunities will reduce injury rates more positively than advancements in the science of predicting causality of injuries.

The Commission is equally concerned with the general health issues of racing animals. Racetracks routinely require up-to-date equine Certificates of Veterinary Inspection or proof of current vaccinations before an animal enters to racetracks.

In 2009, a previously eradicated disease in the United States, equine piroplasmosis, reappeared in Missouri, Florida and on a working/cutting horse ranch in South Texas. Since that time, race horses have tested positive for the disease in Texas, New Mexico, Oklahoma and Colorado.

Equine Piroplasmosis can affect horses, donkeys, mules and zebras. The clinical signs — poor appetite and weight loss — are common to many diseases. The disease is transmitted via tick bites or through mechanical transmission by improperly disinfected needles or surgical instruments. Investigations into the outbreaks in Missouri and Florida suggest the disease also spread through needle sharing and blood transfusions among horses at unsanctioned racing. Unfortunately, the disease currently is incurable and a positive horse must be quarantined. Other horses in close proximity to the positive horse, or cohorts, face a test and quarantine for a certain period of time.

Presently, several states, including Colorado, Louisiana, New Mexico, Oklahoma, and Iowa, Canada, and some individual racetracks have established entry requirements that include a negative test for equine piroplasmosis. Several require a veterinarian's statement that the horse has been inspected and treated for ticks.

There are many unresolved issues for the United States Department of Agriculture and the Texas Animal Health Commission to address over the coming months and years. There are several unanswered questions at this point:

- How often should an animal receive a test?
- How often should it be treated for ticks?
- Should a positive horse have a permanent identification marker?
- Should a positive horse that does not exhibit any clinical signs of the disease be permanently quarantined and not allowed to participate in activities such as racing, rodeos, or trail rides?

Equine piroplasmosis is a serious disease and brings with it the threat of quarantine to any racetrack. The Racing Commission, Texas Horsemen's Partnership and Texas racetracks will continue to work with the Texas Animal Health Commission and the United States Department of Agriculture to determine the best courses of action for the near and long term best interests of equine animal health.

### **Enforcement Inspections**

The Commission works to prevent any rule violations that endanger the health and safety of race animals and participants, and disciplines licensees who commit these violations. As part of the Commission's efforts, it works closely with the Department of Public Safety to conduct effective compliance inspections. During these unannounced inspections, teams of DPS and Commission investigators search a racetrack's restricted areas for contraband such as drugs, injection needles, shocking devices and firearms. If contraband is found, the investigators prepare a case for presentation to the stewards or judges, and in many cases, for presentation to the local prosecutor. In calendar year 2009, DPS and the Commission conducted 141 compliance inspections and referred 27 contraband cases to the stewards or judges for disciplinary action.

Although DPS and the Commission have worked well together in the past, the agency may approach DPS in the upcoming year to discuss possible enhanced coordination between the two agencies. By more clearly defining expectations of each agency's role and creating a consistent framework for the frequency and geographic coverage of compliance inspections, both agencies could enhance their efforts to detect contraband and deter violations.

### **Racetrack Review Process**

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To ensure consistent and efficient regulation of racetracks, staff has worked to improve the current racetrack inspection process, the racetrack review process, and the integration of these two regulatory tools.

One of the major improvements to the inspection program involves having some random inspections conducted by department management and not the assigned field staff at each track. Since the department managers generally are located in Austin and not at a specific track, they provide a different perspective from their field staff and are able to ensure a consistent inspection process at every track. This, along with other changes such as improved documentation and an enhanced report for Commissioners, is bringing consistency across the board in all program areas.

The racetrack review process, first piloted in early 2007, provides the Commission and its field staff at each track a mechanism for collecting and interpreting more meaningful statistics about race meets. It requires all staff, including the stewards, judges, veterinarians, test barn supervisor, investigator, licensing technicians, and auditors, to document issues or comments, over the span of the race meet. This change is in contrast to leaving the reporting to the discretion of the presiding steward or judge.

Staff continues to improve this review process and is seeing better communication with racetrack and agency staff. The Commission's existing staff designed and produced this innovative assessment tool. A by-product of this process continues to be much-needed cross-departmental training and a better overall understanding of agency-wide policies and procedures.

### **Use of Technology**

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The Commission is a leader among national racing regulators in employing technology for licensing, regulation and information distribution. The agency continues its commitment to exploring technological enhancements for its customers. Initiatives related to technological modifications or upgrades include developing solutions to facilitate access to agency information for both internal and external customers and to enhance the productivity of staff. The agency continues to enhance security measures that protect the access and storage of its extensive and vital database information.

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## Responding to Changes in the Industry

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The Commission must remain flexible in its use of staff and resources in order to address changes the racing industry makes in response to economic conditions and patron patterns. A racetrack may decide at any time during a year to alter its business product and approach for live and simulcast racing. Race animal owners, trainers and handlers modify their approaches as well.

In the past few years, the Commission has fielded requests for an increasing variety of changes. For example, the tracks consistently request Commission approval for increases and decreases to live race dates. They request

TECHNOLOGY AND MARKET CHANGES  
DRIVE RACETRACK REQUESTS.

changes to post-times, exotic wagering requirements, configurations of electronic wagering machines and simulcasting opportunities. Particularly challenging are the requests related to new, innovative technologies for wagering hardware, software and telecommunications equipment.

Jurisdictions must constantly evaluate their animal drug testing programs to respond to both real and perceived problems. For example, in January of 2009, the Commission began testing for anabolic steroids in racing horses. To date, and after some 18 months of testing, there have been no equine anabolic steroid positives. In part, this may be attributed to the groundwork laid by the Safety and Medication Working Group in developing the anabolic steroid testing policy.

However, the fact that there have been no positives for anabolic steroids calls for a closer examination of the cost and benefit associated with this drug testing. Overall, the number of drug positives remains very low, with few positives for performance enhancing drugs. For example, out of the 7,599 greyhound samples tested in 2009, there were only six positives, for a rate of 0.078 percent. And out of six positives, only one was for a drug that could alter a greyhound's performance. The agency will work with TVMDL to determine whether to make adjustments in the various testing protocols for both horses and greyhounds.

These and other changes often require prompt action by the entire racing industry and by the Commission. The Commission's unique challenge among state agencies is to provide staff and regulatory oversight under such conditions.

Unfortunately the State's biennial planning and appropriations cycle is much longer than the racing industry's planning cycle. Mid-biennium changes in racing and wagering programs force the Commission to rebalance its regulatory priorities. The agency has tried to prepare for a variety of

scenarios through the use of contingency riders in the General Appropriations Act, which would provide for additional funding and FTEs as needed based on industry changes.



AGENCY GOALS  
&  
TECHNOLOGY INITIATIVE ALIGNMENT

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**Agency Goals**

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**Goal A. Enforce Racing Regulation**

{V.T.C.S. Art. 179e, § 3.02; § 3.021; § 15.03}

**Goal B. Regulate Participation in Racing**

{V.T.C.S. Art. 179e, § 3.02; § 3.021; § 3.16; Article 7}

**Goal C. Regulate Pari-mutuel Wagering in Texas**

{V.T.C.S. Art. 179e, § 11.01; § 11.011}

**Goal D. Conduct Purchasing and Contracting Activities that Foster Meaningful and Substantive Inclusion of Historically Underutilized Businesses.**

{Government Code, § 2161.123}

## Objectives and Outcome Measures

### Goal A: Enforce Racing Regulation

**Objective 1** Regulate pari-mutuel racetracks effectively so racetrack inspections show all racetracks to be in 100% compliance by the year 2015.

Outcome Measures	1.1.1	Percentage of complaints regarding racetrack operations resolved in six months or less
	1.1.2	Percentage of racetracks with an inspection score of 100%
	1.1.3	Percentage of deficiency items closed

**Objective 2** Increase the number of Texas-bred race animals competing. Encourage an increase of 2% each year in the number of Texas-bred animals competing through 2015.

Outcome Measure	1.2.1	Percent increase in Texas-bred race animals accredited per year
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**Objective 3** Reduce the rate of rulings per occupational licensee to 1:30 through 2015.

Outcome Measures	1.3.1	Average number of rulings per occupational licensee
	1.3.2	Recidivism rate for those receiving disciplinary action
	1.3.3	Percentage of investigations (individual) resulting in disciplinary action
	1.3.4	Percentage of licensees with no recent violations

**Objective 4** Reduce the percentage of race animals that sustain a major injury as a result of pari-mutuel racing or are dismissed to less than 0.3% through 2015.

Outcome Measures	1.4.1	Percentage of race animals injured or dismissed from the racetrack
	1.4.2	Number of drug positives for illegal medications

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**Goal B: Regulate Participation in Racing**

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**Objective 1** Maintain the efficiency of the occupational licensing process so that all licensed individuals are qualified through 2015.

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Outcome Measures	2.1.1	Average time required to issue a new occupational license
	2.1.2	Percent of license holders meeting qualifications

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**Goal C: Regulate Pari-mutuel Wagering in Texas**

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**Objective 1** Increase the pass rate for initial tote tests to 97% and the pass rate for pari-mutuel compliance audits to 95% through 2015.

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Outcome Measures	3.1.1	Percentage of tote tests passed on the first run
	3.1.2	Percentage of compliance audits passed

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**Goal D: Conduct Purchasing and Contracting Activities that Foster Meaningful and Substantive Inclusion of Historically Underutilized Businesses.**

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**Objective 1** Ensure purchases from historically underutilized businesses constitute at least 16% of the total value of purchases each year.

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Outcome Measure	4.1.1	Percentage of total dollar value of purchases made from HUBs
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## Goal A: Enforce Racing Regulation

Strategy 1.1.1 Monitor racetrack owners and their operations through regulatory and enforcement activities.		
Output Measures	1.1.1.1	Number of complaints regarding racetrack operations closed
	1.1.1.2	Number of racetrack inspections
Efficiency Measures	1.1.1.1	Average regulatory cost per racetrack
	1.1.1.2	Average length of time (days) to resolve complaints
Explanatory Measures	1.1.1.1	Number of horse racetracks regulated
	1.1.1.2	Number of greyhound racetracks regulated
Strategy 1.2.1 Administer the Texas Bred Incentive Programs by monitoring the Texas-bred races and account, and through timely allocation of funds to the breed registries.		
Output Measures	1.2.1.1	Number of Texas-bred awards
Explanatory Measures	1.2.1.1	Total amount of money dedicated to Texas Bred Incentive Programs
Strategy 1.3.1 Supervise the conduct of racing through enforcement of regulations and monitoring of races.		
Output Measure	1.3.1.1	Number of live races monitored
Strategy 1.3.2 Monitor occupational licensee activities.		
Output Measures	1.3.2.1	Number of investigations completed
	1.3.2.2	Number of rulings issued against occupational licensees
	1.3.2.3	Number of occupational licenses suspended or revoked
Strategy 1.4.1. Inspect and provide emergency care.		
Output Measure	1.4.1.1	Number of race animals inspected pre-race
Efficiency Measure	1.4.1.1	Average regulatory cost per animal inspected
Explanatory Measures	1.4.1.1	Number of race animals dismissed from Texas pari-mutuel racetracks
	1.4.1.2	Number of race animals injured on Texas pari-mutuel racetracks
Strategy 1.4.2. Administer the drug testing program.		
Output Measure	1.4.2.1	Number of animal specimens collected for drug testing

## Goal B: Regulate the Participation in Racing

Strategy 2.1.1		Administer the occupational licensing programs through enforcement of regulations.
Output Measures	2.1.1.1	Number of new occupational licenses issued
	2.1.1.2	Number of occupational licenses renewed
Efficiency Measure	2.1.1.1	Average regulatory cost per individual license issued
Explanatory Measure	2.1.1.1	Total number of individuals licensed
Strategy 2.1.2		Provide for the processing of occupational license, registrations, or permit fees through TexasOnline.

## Goal C: Regulate Pari-mutuel Wagering

Strategy 3.1.1.		Monitor wagering and conduct audits.
Output Measures	3.1.1.1	Number of live and simulcast races audited and reviewed
	3.1.1.2	Number of compliance audits completed
Efficiency Measure	3.1.1.1	Average cost to audit and review a live or simulcast race
Explanatory Measures	3.1.1.1	Total pari-mutuel handle (in millions)
	3.1.1.2	Total take to the State Treasury from pari-mutuel wagering on live and simulcast races
	3.1.1.3	Ratio of simulcast handle to live handle
Strategy 3.1.2.		Conduct wagering compliance inspections.
Output Measures	3.1.2.1	Number of tote tests completed

## Goal D: Conduct Purchasing and Contracting Activities that Foster Meaningful and Substantive Inclusion of Historically Underutilized Businesses.

Strategy D1.1.		Develop and implement a plan for increasing purchasing from historically underutilized businesses.
Output Measures	4.1.1.1	Number of HUBs contractors and subcontractors contacted for bid proposals
	4.1.1.2	Number of HUB contracts and subcontracts awarded
	4.1.1.3	Dollar value of HUB purchases

## Part 1: Technology Assessment Summary

- *Provide a brief description of the planned technology solutions that respond to the key factors that will affect the agency. Consider how those solutions align with the statewide technology goals reflected in the State Strategic Plan for Information Resources (Advancing Texas Technology).*

Over the next five years, the I.T. department will focus on providing turnkey solutions for customer service both within the agency as well as to the racing industry and public. The agency currently is upgrading critical applications to leverage the newest technologies and tools to provide easy access to agency data while improving infrastructure security. The department also will evaluate current hardware infrastructure with plans to maximize current server technology to help reduce overall server counts as well as maintenance costs. The department will continue to provide custom application development to assist the agency as it responds to both external and internal changes.

- *Provide agency descriptions related to each statewide technology goal listed below. The criteria for these descriptions appear after each goal and are labeled 1.a, 1.b, 2.a and so forth.*

### Statewide Technology Goal 1

Strengthen and Expand the Use of Enterprise Services and Infrastructure

#### 1.1 Enhance Capabilities of the Shared Infrastructure

- Data Center Infrastructure
- Communications Technology Infrastructure
- Statewide Portal Infrastructure

#### 1.2 Leverage Shared Applications

- Enterprise Resource Planning (ERP)
- Email Messaging

#### 1.3 Leverage the State's Purchasing Power

- Product and Services Portfolio Expansion

- *1.a Describe agency plans to strengthen and/or expand its capabilities through the initiatives described in Statewide Technology Goal 1.*

The agency continues to rely heavily on the TEX-AN and Department of Information Resources (DIR) Cooperative contracts for all of its hardware and software purchases as well as agency communications needs. The agency has used the DIR's staff augmentation and DBITS contracts for special projects. As the DIR develops new shared applications, the agency will evaluate the benefits these items could bring to the agency.

- *1.b Describe agency plans to strengthen and/or expand its capabilities through other initiatives that leverage enterprise or multi-agency services and infrastructure, including managed services, shared applications, internal consolidation efforts and procurement strategies.*

The agency works closely with Texas Online for services such as licensing and fee collections and welcomes the opportunity to leverage multi-agency services or shared applications where applicable. The I.T. department will evaluate the possibility of a server consolidation that should reduce long term procurement needs and reduce maintenance costs. The agency also is evaluating managed services as a possible solution to reduced I.T. resources.

### **Statewide Technology Goal 2**

Secure and Safeguard Technology Assets and Information

#### **2.1 Align the State's Approach to Enterprise Security with other State and National Strategies**

- State Enterprise Security Plan
- Vulnerability to Cyber Attacks
- Response and Recovery Capabilities

#### **2.2 Integrate Identity Management, Credentialing and Access Privileges**

- Identity Management Services

- *2.a Provide an update on the agency's progress in implementing strategies to align with the State Enterprise Security Plan.*

The agency will begin a review of its policies governing the use of I.T. resources to ensure that these policies maximize security and address new trends and technologies such as Web 2.0, social networking, and items of particular concern such as protection of personal identifying information (PII). Items such as mobile workforce issues will also be addressed with an emphasis on balancing security with innovation and service. The agency is developing a training program to ensure that staff is aware of the threats and vulnerabilities that exist and how their actions impact the agency.

- *2.b Describe the agency's identity management strategies in place or planned.*

The agency currently has an identity management policy in place. For system access, I.T. staff assigns each user a username and password and grants access based on job function. After completing an application upgrade, the agency will leverage additional tools to improve monitoring and security. All I.T. staff has undergone training for protection of PII (Personally Identifiable Information).

### **Statewide Technology Goal 3**

Serve Citizens Anytime, Anywhere

#### **3.1 Expand and Enhance Access to Agency Services**

- Multi-Channel Access
- Rural Broadband Expansion

#### **3.2 Facilitate Open and Transparent Government**

- Best Practices for Information Assets

- *3.a Describe the agency's plans to expand or enhance access to its services and promote citizen engagement through online services and emerging technologies.*

The agency continues to explore new ways to deliver information to the industry and public. The agency's Web site is the primary source for delivering data. As new projects are requested, the agency evaluates the feasibility of using Texas Online and other online services or technologies to determine the best way to deliver these services. At this time, the Commission does not have new projects planned that specifically address this statewide goal.

- *3.b Describe initiatives planned or in process that will facilitate access to agency information and public data.*

Several projects are in process to improve reporting and tracking of industry-related information. These programs include a program to track racetrack ownership and a project to improve greyhound injury reporting and animal monitoring. A plan to develop comparative reports for racetrack statistics and a project to track trainer test results should begin in FY11.

### **Statewide Technology Goal 4**

Pursue Excellence and Foster Innovation across the Enterprise

#### 4.1 Link Technology Solutions to Workplace Innovations

- Workplace Productivity and Collaboration

#### 4.2 Pursue Leading-Edge Strategies for Application Deployment

- Cloud Computing
- Specifications, Toolkits and the Application Marketplace
- Legacy Systems Modernization

#### 4.3 Optimize Information Asset Management

- Best Practices for Managing Digital Information

#### 4.4 Promote the Use and Sharing of Information

- Health Information Exchange
- Statewide Communications Interoperability
- Justice Information System Integration
- Enterprise Geospatial Services

- *4.a Describe agency plans to implement or enhance workplace productivity and to leverage collaboration tools.*

The agency is beginning an application project to upgrade the agency's core applications and ultimately reduce the number of servers. With the latest toolsets, the agency will be able to offer new services and applications to enhance workplace productivity and leverage collaboration tools such as shared workspaces and project tracking.

- *4.b Describe agency strategies to develop and deploy applications more efficiently (i.e., through Cloud Computing, Software as a Service, Application Toolkits, Legacy System Modernization).*

The agency will evaluate Cloud Computing and Web 2.0 applications to determine if these strategies would benefit the agency. At this time, there is no pressing need for SaaS or Cloud Computing and security concerns have deemed these strategies as low priority.

- *4.c Describe agency strategies to enhance information asset management practices.*

The agency currently has a database which stores much of the agency's informational assets. The I.T. department responds to staff needs for increased automation and new applications to assist in

the collection and management of data. Policies are in place to protect these assets and access to information is strictly enforced.

- *4.d Describe agency practices or plans to enhance the use and sharing of information with agency business partners.*

The agency's I.T. department has completed several projects aimed at enhancing and improving access to agency information such as the online simulcast approval project. The agency also completed a redesign of its Web site in 2008 that improved navigation and made it easier to locate key information. The agency has a project in the planning stage to assist the Texas Veterinary Medical Diagnostic Laboratories in implementing the automation of negative sample reporting.

## Technology Resources Planning

The table below depicts the format and mapping of the Texas Racing Commission's current and planned technology initiatives to the agency's business objectives.

TECHNOLOGY INITIATIVE	RELATED AGENCY OBJECTIVE/(S)	RELATED SSP STRATEGY/(IES)	CURRENT OR PLANNED	ANTICIPATED BENEFIT(S)	INNOVATION, BEST PRACTICE, BENCHMARKING
1. Create owner-management tracking system.	Obj. 1-1 – Regulate pari-mutuel racetracks effectively.	4.1, 4.3	Current	Assist in regulation of owners and operations. Improve enforcement.	Best Practices: Automated tracking vs. manual entry.
2. Assist TVMDL by implementing the automation of negative sample reporting.	Obj. 1-4 Administer the drug testing program (Strategy 1-4-2).	4.1	Planned	Increase efficiency and automate the reporting process. Increase productivity of TVMDL staff.	Benchmark: Measure response time for negative sample reporting.  Best Practices: Automatic file transfer vs. manual entry.
3. Improve injury reporting and animal monitoring via expanded tracking system.	Obj. 1-4 – Reduce the % of race animals that sustain a major injury.	3.2, 4.1	Current	Increase tracking information for better analysis to help injuries.	Benchmark: Reduce # of reported injuries.
4. Improve ruling system by adding templates and automate the 'Notice of Alleged Violation' process.	Obj. 1-3 – Reduce the rate of rulings per occupational licensee.	4.1	Planned	Improve employee efficiency and improve consistency of rulings.	Benchmark: Reduce time needed to enter rulings.
5. Foster vendor relations with HUB vendors.	Obj. 4-1 – Ensure HUB purchases constitute at least 16% annually of total purchases.	1.3	Current	Assist agency in achieving agency HUB goal.	Benchmark: 30% I.T. commodity and professional services purchasing with HUB vendors.
6. Develop automated trainer test results tracking system.	Obj. 2-1 – Maintain efficiency of the occupational licensing process.	3.2, 4.1	Planned	Improve tracking of trainers' test.	Best Practices: Automated tracking vs. manual entry.

## Technology Resources Planning

TECHNOLOGY INITIATIVE	RELATED AGENCY OBJECTIVE/(S)	RELATED SSP STRATEGY/(IES)	CURRENT OR PLANNED	ANTICIPATED BENEFIT(S)	INNOVATION, BEST PRACTICE, BENCHMARKING
7. Develop comparative racetrack review statistics and reporting system.	Obj. 1-1 – Regulate pari-mutuel racetracks effectively.	3.2, 4.1	Current	Assist agency in evaluating racetrack performance.	Best Practices: Automated tracking vs. manual analysis.
8. Evaluate and implement Project Management system.	All objectives.	4.3	Planned	Improve tracking and management of agency projects.	Benchmark: Faster implementation of projects. Increased productivity.
9. Improve industry and remote access to agency's online resources.	All objectives.	2.1, 2.2, 3.1, 4.2	Planned	Improve security and standardize access of remote users while reducing vulnerabilities from outside users.	Best Practices: Improve security to online resources.
10. Evaluate for implementation the following: Seat Management, Managed Services and other outsourcing options for security monitoring and infrastructure services.	All objectives.	2.2,4.2	Planned	Reduce FTE and equipment costs. Improve utilization of IT resources.	Innovation: Managed Services. Benchmark: Reduced costs, improved efficiency in security costs and other IT projects.
11. Evaluate current server and storage options to maximize technology and reduce server cost.	All objectives.	4.2	Planned	Reduce cost and maintenance by reducing number of servers.	Innovation: Implement container technology to reduce server count and overall costs to agency.  Best Practices: Reduce costs and increase productivity.

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\*Per the Agency Strategic Plan Instructions, the Measure Definitions are only included in copies submitted to Governor's Office of Budget, Planning and Policy and the Legislative Budget Board.



March

Staff meeting to determine whether to request changes to budget/measure structure.  
Senior management continues solicitation of input from field employees.  
Distribute Customer Service Surveys.

April

Evaluate requests for changes to measures.

May

Solicit input on external/internal assessment from Commissioners.  
Discuss and draft external/internal assessment.  
Prepare outcome projections.  
Discuss and draft workforce plan.

June

Submit Customer Service Survey to LBB/GOBPP.  
Prepare draft report.  
Submit to Commission for comment.

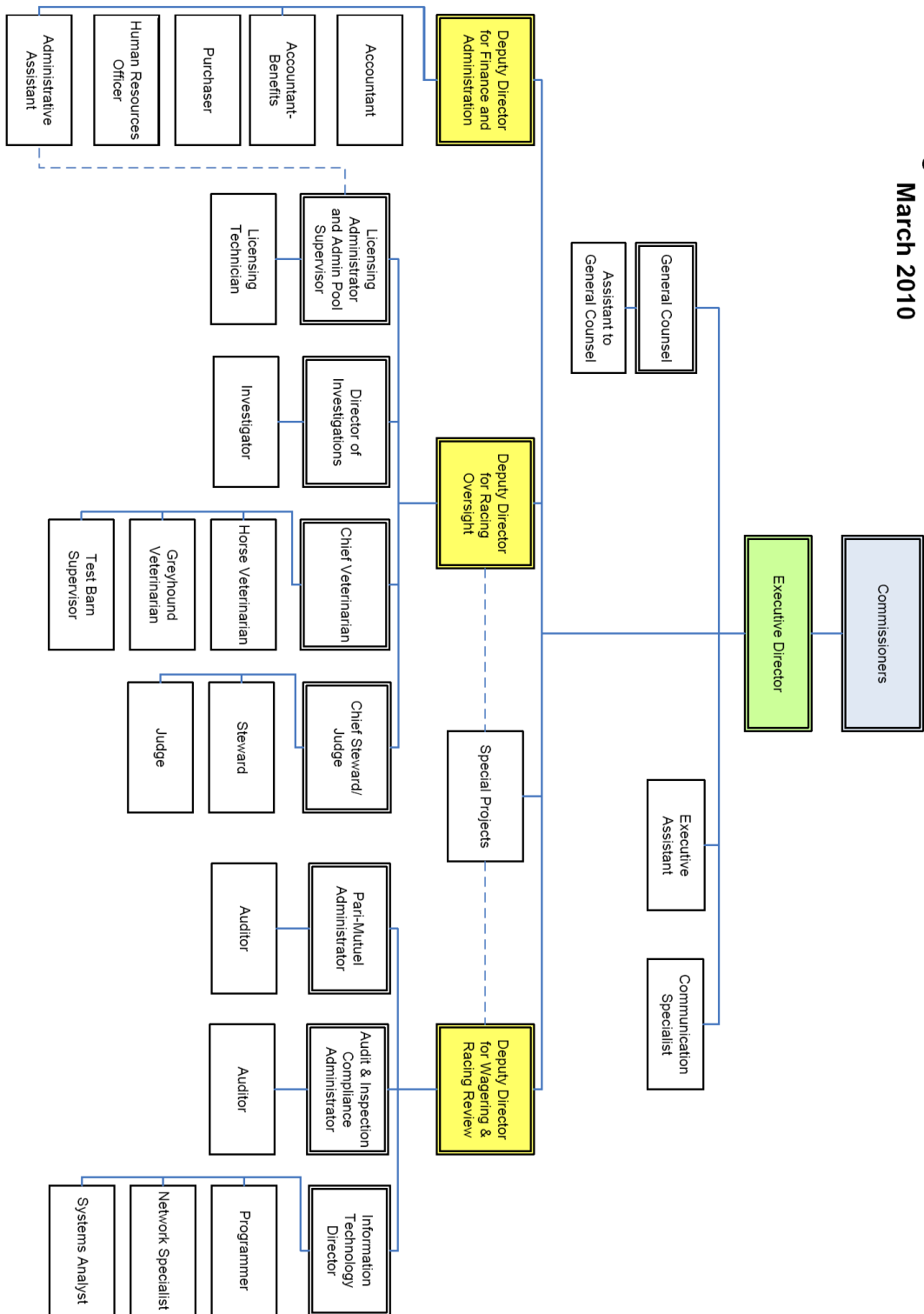
July

Plan distribution to appropriate agencies.  
Final review and approval by Commission.

Ongoing

Quarterly reporting of Key Measures to Legislative Budget Board.  
Quarterly management review of all measures.

# **TEXAS RACING COMMISSION** Organizational Chart March 2010



## Appendix C. Outcome Projections

OUTCOME	DESCRIPTION	2011	2012	2013	2014	2015
1.1.1	Percentage of Complaints Regarding Racetrack Operations Resolved in Six Months or Less	95%	95%	95%	95%	95%
1.1.2	Percentage of Racetracks with an Inspection Score of 100 Percent	70%	70%	70%	70%	70%
1.1.3	Percentage of Deficiency Items Closed	70%	70%	70%	70%	70%
1.2.1	Percent Increase in Texas-Bred Race Animals Accredited per Year	-5%	-5%	-5%	-5%	-5%
1.3.1	Average Number of Rulings per Occupational Licensee	1:30	1:30	1:30	1:30	1:30
1.3.2	Recidivism Rate for Those Receiving Disciplinary Action	16%	16%	16%	16%	16%
1.3.3	Percentage of Investigations (Individual) Resulting in Disciplinary Action	95%	95%	95%	95%	95%
1.3.4	Percentage of Licensees with No Recent Violations	95%	95%	95%	95%	95%
1.4.1	Percentage of Race Animals Injured or Dismissed from the Racetrack	0.3%	0.3%	0.3%	0.3%	0.3%
1.4.2	Number of Drug Positives for Illegal Medications per 1,000 Samples	6	6	6	6	6
2.1.1	Average Time Required to Issue a New Occupational License	15	15	15	15	15
2.1.2	Percent of License Holders Meeting Qualifications	100%	100%	100%	100%	100%
3.1.1	Percentage of Tote Tests Passed on the First Run	97%	97%	97%	97%	97%
3.1.2	Percentage of Compliance Audits Passed	95%	95%	95%	95%	95%
4.1.1	Percentage of Total Dollar Value of Purchases Made from HUBs	16%	16%	16%	16%	16%

## GOAL A: ENFORCE RACING REGULATION

Objective 1: Regulate pari-mutuel racetracks effectively so racetrack inspections show all racetracks to be in 100% compliance by 2015.

### Outcome Measures

#### **OC 1.1.1      PERCENTAGE OF COMPLAINTS REGARDING RACETRACK OPERATIONS RESOLVED IN SIX MONTHS OR LESS**

Short definition	- The percentage of complaints submitted by the public about racetrack operations resolved in six months or less. A complaint is an allegation that a specific Commission rule has been violated.
Purpose	- To determine the responsiveness of racetracks to expressed regulatory concerns.
Data Source	- The Investigative Department maintains records of complaints received, including the date received, the investigator assigned to handle the investigation, and the date resolved.
Calculation Method	- The number of complaints resolved in six months or less divided by the total number of complaints received, multiplied by 100, stated as a percentage.
Data Limitations	- Performance will depend on some factors outside the agency's control, such as financial constraints on the racetrack and type of complaints received.
Calculation Type	- Non-cumulative
New Measure	- No
Desired Performance	- Higher than projected

#### **OC 1.1.2      PERCENTAGE OF RACETRACK INSPECTIONS WITH A SCORE OF 100%**

Short definition	- The percentage of racetrack inspections with a score of 100%.
Purpose	- To determine the effectiveness of ongoing regulatory communication between the agency and the racetracks.
Data Source	- The score is derived from grading a checklist. Inspections include checking the racing surface, animal facilities, track security, patron facilities, and wagering equipment and operations for compliance with the Commission's rules. The Inspection Program Administrator maintains the information.
Calculation Method	- The number of racetrack inspections with a score of 100% divided by the total number of inspections.
Calculation Method	- The number of racetrack inspections with a score of 100% divided by the total number of inspections, multiplied by 100, stated as a percentage.

## Appendix D. Outcome Projections

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Data Limitations	- Performance will depend on factors outside the agency's control, such as regulatory responsiveness of the racetracks.
Calculation Type	- Non-cumulative
New Measure	- No
Desired Performance	- Higher than projected

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### **OC 1.1.3      PERCENTAGE OF DEFICIENCY ITEMS CLOSED**

Short definition	- The percentage of items confirmed to be corrected by follow-up inspection from the list of items not in compliance during the initial racetrack inspections.
Purpose	- To determine the effectiveness of regulatory communication between the agency and the racetracks after an unsatisfactory inspection.
Data Source	- The Inspection Program Administrator maintains this information.
Calculation Method	- The number of deficiency items on inspection checklists that were corrected divided by the total number of deficiency items on inspection checklists in the report period, multiplied by 100, stated as a percentage.
Data Limitations	- Performance will depend on some factors outside the agency's control, such as financial constraints on the racetrack and type of deficiency items.
Calculation Type	- Cumulative
New Measure	- No
Desired Performance	- Higher than projected

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## **Output Measures**

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### **OP 1.1.1.1      NUMBER OF RACETRACK OPERATION COMPLAINTS CLOSED**

Short definition	- The number of complaints submitted by the public about racetrack operations resolved during the report period. A complaint is an allegation that a specific Commission rule has been violated.
Purpose	- To determine the responsiveness of the racetracks to expressed regulatory concerns.
Data Source	- The Investigative Department maintains a log book on all complaints received.
Calculation Method	- A physical count of all complaints regarding racetrack operations in the log book that were resolved during the report period.
Data Limitations	- Performance will depend on factors outside the agency's control, such as financial constraints on the racetracks, the type of complaint received, and the willingness of the racetracks to comply with regulatory requirements.
Calculation Type	- Cumulative
New Measure	- No
Desired Performance	- Higher than projected

---

**OP 1.1.1.2      NUMBER OF RACETRACK INSPECTIONS**

Short definition	- The number of inspections conducted by agency staff of all racetrack premises.
Purpose	- To determine the rate of inspection activity by the agency.
Data Source	- Inspections include checking the racing surface, animal facilities, track security, patron facilities, and wagering equipment and operations for compliance with the Commission's rules. The Inspection Program Administrator maintains a log of all inspections conducted.
Calculation Method	- A physical count of all racetrack inspections conducted during the report period.
Data Limitations	- None
Calculation Type	- Cumulative
New Measure	- No
Desired Performance	- Higher than projected

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**Efficiency Measures**

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**EFF 1.1.1.1      AVERAGE REGULATORY COST PER RACETRACK**

Short definition	- The average cost to regulate racetracks.
Purpose	- To determine the fiscal efficiency of regulating racetracks.
Data Source	- The Finance Department obtains the total strategy costs through USAS.
Calculation Method	- The total strategy costs allocated to racetracks divided by the total number of licensed racetracks. The total strategy costs are all expenditures coded to the strategy in USAS, plus 7% of indirect costs. Indirect costs are central administration, information resources, and other support services.
Data Limitations	- None
Calculation Type	- Cumulative
New Measure	- No
Desired Performance	- Lower than projected

---

**EFF 1.1.1.2      AVERAGE LENGTH OF TIME (DAYS) TO RESOLVE COMPLAINTS**

Short definition	- The average number of days taken by the agency to resolve all complaints during the report period.
Purpose	- To determine the efficiency of the agency's complaint resolution process.
Data Source	- The Investigative Department maintains records of complaints received, including the date received, the investigator assigned to handle the investigation, and the date resolved.
Calculation Method	- The total number of calendar days needed to resolve all complaints divided by the number of complaints resolved for the report period.

## Appendix D. Outcome Projections

Data Limitations	- Performance will depend on factors outside the agency's control, such as financial constraints on the racetracks, the type of complaints received, and the willingness of the racetracks to comply with regulatory requirements.
Calculation Type	- Cumulative
New Measure	- No
Desired Performance	- Lower than projected

### Explanatory Measures

#### **EX 1.1.1.1      NUMBER OF HORSE RACETRACKS REGULATED**

Short definition	- The total number of horse racetracks regulated during the report period.
Purpose	- To determine the targets of the agency's regulatory activity.
Data Source	- The Executive Division maintains a list of licensed and regulated horse racetracks.
Calculation Method	- A physical count of the horse racetracks regulated during the report period.
Data Limitations	- Performance may depend on factors outside the agency's control, such as a racetrack's financial solvency.
Calculation Type	- Cumulative
New Measure	- No
Desired Performance	- N/A

#### **EX 1.1.1.2      NUMBER OF GREYHOUND RACETRACKS REGULATED**

Short definition	- The total number of greyhound racetracks regulated during the report period.
Purpose	- To determine the targets of the agency's regulatory activity.
Data Source	- The Executive Division maintains a list of licensed and regulated greyhound racetracks.
Calculation Method	- A physical count of the greyhound racetracks regulated during the report period.
Data Limitations	- Performance may depend on factors outside the agency's control, such as a racetrack's financial solvency.
Calculation Type	- Cumulative
New Measure	- No
Desired Performance	- N/A

Objective 2: Increase the number of Texas-bred race animals competing by 2% each year through 2015.

### Outcome Measure

#### **OC 1.2.1 PERCENT INCREASE IN TEXAS-BRED RACE ANIMALS ACCREDITED PER YEAR**

Short definition	- The annual percentage change in the number of animals newly accredited by the Texas breed registries.
Purpose	- To determine the effectiveness of the Texas-Bred Incentive Programs.
Data Source	- The official breed registries named in the Texas Racing Act maintain this information.
Calculation Method	- The number of newly accredited Texas-bred animals for the report period divided by the number of newly accredited Texas-bred animals for the previous report period, multiplied by 100, stated as a percentage.
Data Limitations	- Performance will depend entirely on factors outside the agency's control.
Calculation Type	- Non-cumulative
New Measure	- No
Desired Performance	- Higher than projected

### Output Measure

#### **OP 1.2.1.1 NUMBER OF TEXAS-BRED AWARDS**

Short definition	- The total number of breeder awards made by the breed registries during the report period.
Purpose	- To determine the extent of the Texas Bred Incentive Programs.
Data Source	- The official breed registries named in the Texas Racing Act maintain this information and report it to the agency.
Calculation Method	- A summation of all breeder awards made by all official breed registries.
Data Limitations	- Performance will depend entirely on factors outside the agency's control, as breeder awards are based on winning animals.
Calculation Type	- Cumulative
New Measure	- No
Desired Performance	- Higher than projected

### Explanatory Measure

#### **EX 1.2.1.1 TOTAL AMOUNT OF MONEY DEDICATED TO TEXAS-BRED INCENTIVE PROGRAMS**

Short definition	- The total amount of money received for the Texas-Bred Incentive Programs from pari-mutuel handle.
Purpose	- To determine the effectiveness of the Texas Bred Incentive Programs.
Data Source	- The Pari-mutuel and Audit Department maintains this information.

## Appendix D. Outcome Projections

Calculation Method	- A summation computer count of the total amount of money allocated to the Texas-Bred Incentive Programs during the report period.
Data Limitations	- Performance will depend entirely on factors outside the agency's control, since revenue for the programs is derived from pari-mutuel handle.
Calculation Type	- Cumulative
New Measure	- No
Desired Performance	- Higher than projected

**Objective 3: Reduce the rate of rulings per occupational licensee to 1:30 through 2015.**

### Outcome Measures

#### **OC 1.3.1 AVERAGE NUMBER OF RULINGS PER OCCUPATIONAL LICENSEE**

Short definition	- The average number of rulings issued against occupational licensees during the report period. A ruling is a disciplinary order issued by the stewards or judges.
Purpose	- To determine the rate of compliance with the agency's rules.
Data Source	- The data is maintained in the agency's database.
Calculation Method	- The total number of rulings against occupational licensees for violations divided by the total number of occupational licensees, stated as a ratio.
Data Limitations	- Performance depends on factors that are mostly outside the agency's control.
Calculation Type	- Non-cumulative
New Measure	- No
Desired Performance	- Lower than projected

#### **OC 1.3.2 RECIDIVISM RATE FOR THOSE RECEIVING DISCIPLINARY ACTION**

Short definition	- The number of repeat offenders as a percentage of all offenders during the report period.
Purpose	- To determine the effectiveness of disciplinary actions as a deterrent.
Data Source	- The data is maintained in the agency's database.
Calculation Method	- The number of occupational licensees with two or more rulings that involved a fine of at least \$500 or suspension of the license divided by the number of licensees against whom any ruling was issued during the report period, multiplied by 100, stated as a percentage.
Data Limitations	- Performance will depend on factors outside the agency's control, such as the willingness of occupational licensees to comply with regulatory requirements.
Calculation Type	- Non-cumulative
New Measure	- No
Desired Performance	- Lower than projected

**OC 1.3.3      PERCENTAGE OF INVESTIGATIONS (INDIVIDUAL) RESULTING IN DISCIPLINARY ACTION**

Short definition	- Percentage of investigations of alleged rule violations by occupational licensees resulting in disciplinary action.
Purpose	- To determine both the effectiveness of the investigative reports and the judicial process of the stewards' and judges' rulings.
Data Source	- The data is maintained in the agency's database.
Calculation Method	- The number of investigations that resulted in disciplinary action divided by the total number of investigations during the report period, multiplied by 100, stated as a percentage.
Data Limitations	- Performance will depend on factors outside the agency's control, such as the facts derived in the investigations.
Calculation Type	- Non-cumulative
New Measure	- No
Desired Performance	- Higher than projected

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**OC 1.3.4      PERCENTAGE OF LICENSEES WITH NO RECENT VIOLATIONS**

Short definition	- The percentage of licensees with no recent violations.
Purpose	- To determine the rate of compliance with the agency's law and rules.
Data Source	- The data is maintained in the agency's database.
Calculation Method	- The number of individuals currently licensed by the agency who have not committed a violation within the current year divided by the number of individuals currently licensed, multiplied by 100, stated as a percentage.
Data Limitations	- Performance will depend on factors outside the agency's control, such as the willingness of occupational licensees to comply with regulatory requirements.
Calculation Type	- Non-cumulative
New Measure	- No
Desired Performance	- Higher than projected

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**Output Measures**

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**OP 1.3.1.1      NUMBER OF LIVE RACES MONITORED**

Short definition	- The number of live races conducted at Texas pari-mutuel racetracks and monitored by the stewards and judges.
Purpose	- To determine the volume of live racing regulatory work in Texas.
Data Source	- The data is maintained in the agency's database.

## Appendix D. Outcome Projections

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Calculation Method	- A summation of the live races conducted at the horse and greyhound pari-mutuel racetracks in Texas which were monitored by the stewards and judges during the reporting period.
Data Limitations	- Performance will depend on factors outside the agency's control, such as the number of live race dates requested by the racetracks.
Calculation Type	- Cumulative
New Measure	- No
Desired Performance	- Higher than projected

---

### **OP 1.3.2.1      NUMBER OF INVESTIGATIONS COMPLETED**

Short definition	- A count of all investigations of alleged rule violations by occupational licensees completed during the report period. An investigation is considered completed when the supervising investigator reviews and closes the investigation.
Purpose	- To determine the rate of investigative activity.
Data Source	- The data is maintained in the agency's database.
Calculation Method	- A summation of all investigations completed during the report period.
Data Limitations	- Performance will depend on factors outside the agency's control, such as the licensee's willingness to comply with regulatory requirements.
Calculation Type	- Cumulative
New Measure	- No
Desired Performance	- Higher than projected

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### **OP 1.3.2.2      NUMBER OF RULINGS ISSUED AGAINST OCCUPATIONAL LICENSEES**

Short definition	- A physical count of all rulings issued by the judges or stewards at the racetracks after charges are made against occupational licensees.
Purpose	- To determine the compliance of the licensees with the rules and the law.
Data Source	- The data is maintained in the agency's database.
Calculation Method	- A summation of the total number of rulings issued by the stewards and judges during a reporting period.
Data Limitations	- Performance will depend on factors outside the agency's control, such as the licensee's willingness to comply with regulatory requirements.
Calculation Type	- Cumulative
New Measure	- No
Desired Performance	- Lower than projected

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### **OP 1.3.2.3      NUMBER OF OCCUPATIONAL LICENSES SUSPENDED OR REVOKED**

Short definition	- The number of occupational licenses suspended or revoked. A license can only be revoked by the Commission, but can be suspended by the stewards or judges at the racetracks.
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## Appendix D. Outcome Projections

Purpose	- To determine the number of persons committing serious violations of the agency's rules.
Data Source	- The data is maintained in the agency's database.
Calculation Method	- A physical count of the number of licenses suspended or revoked for violations of the rules.
Data Limitations	- Performance will depend on factors outside the agency's control, such as the licensee's willingness to comply with regulatory requirements.
Calculation Type	- Cumulative
New Measure	- No
Desired Performance	- Lower than projected

**Objective 4: Reduce the percentage of race animals that sustain a major injury or are dismissed as a result of pari-mutuel racing to less than 0.3% through 2015.**

### Outcome Measures

#### **OC 1.4.1      PERCENTAGE OF RACE ANIMALS INJURED OR DISMISSED FROM THE RACETRACK**

Short definition	- The percentage of race animals that suffer a major injury or death as a result of pari-mutuel racing. A major injury is one which requires a prolonged or permanent layoff from racing.
Purpose	- To monitor animal welfare by determining the rate of serious injuries/deaths as a result of pari-mutuel racing.
Data Source	- The data is maintained in the agency's database. The veterinarians input data regarding physical conditions they have observed or confirmed regarding race animals on the grounds of Texas pari-mutuel racetracks. The conditions are coded by type and severity.
Calculation Method	- The number of race animals that suffer a major injury or death as a result of pari-mutuel racing divided by the total number of race animals who raced during the report period, multiplied by 100, stated as a percentage.
Data Limitations	- None
Calculation Type	- Non-cumulative
New Measure	- No
Desired Performance	- Lower than projected

#### **OC 1.4.2      NUMBER OF DRUG POSITIVES FOR ILLEGAL MEDICATIONS PER 1,000 SAMPLES**

Short definition	- The number of drug positives for illegal medications per 1,000 samples.
Purpose	- To monitor the number of drug positives.
Data Source	- The data is maintained in the agency's database. The testing laboratory reports to the agency the number of samples that test positive for illegal medications and enters the data into the agency's database.
Calculation Method	- The number of specimens that tested positive for an illegal medication during the report period divided by the number of specimens submitted for testing during the report period, multiplied by 1,000.

## Appendix D. Outcome Projections

Data Limitations	- Performance depends on factors outside the agency's control, such as the licensee's willingness to comply with required regulations.
Calculation Type	- Cumulative
New Measure	- No
Desired Performance	- Lower than projected

### Output Measures

#### **OP 1.4.1.1      NUMBER OF RACE ANIMALS INSPECTED PRE-RACE**

Short definition	- The number of race animals entered and inspected by Commission veterinarians before each race.
Purpose	- To determine the number of race animals participating in racing.
Data Source	- The data is maintained in the agency's database. Veterinarians and/or test barn technicians at the racetracks enter the information into the database.
Calculation Method	- A summation of the total number of animals entered in all pari-mutuel races at all Texas pari-mutuel racetracks.
Data Limitations	- None
Calculation Type	- Cumulative
New Measure	- No
Desired Performance	- Higher than projected

#### **OP 1.4.2.1      NUMBER OF ANIMAL SPECIMENS COLLECTED FOR DRUG TESTING**

Short definition	- The number of animal specimens collected for testing for the presence of a prohibited drug, chemical, or other substance.
Purpose	- To assess the extent of the Commission's drug testing program.
Data Source	- The data is maintained in the agency's database. The stewards and racing judges order urine and/or blood specimens to be collected from a certain number of race animals from each live race. Details of drug testing are entered into the database system by the veterinarians and/or the test barn technicians.
Calculation Method	- A summation of the total number of race animals from which post-race specimens are collected at the racetracks.
Data Limitations	- None
Calculation Type	- Cumulative
New Measure	- No
Desired Performance	- Higher than projected

### Efficiency Measure

#### **EFF 1.4.1.1      AVERAGE REGULATORY COST PER ANIMAL INSPECTED**

Short definition	- The average regulatory cost per animal inspected.
Purpose	- To determine the fiscal efficiency of examining every race animal before it races.
Data Source	- The data is maintained in the agency's database and USAS.

## Appendix D. Outcome Projections

Calculation Method	- The total strategy cost divided by the total number of race animals inspected. The total strategy costs are all expenditures coded to the strategy in USAS, plus 18% of indirect costs. Indirect costs are central administration, information resources, and other support services.
Data Limitations	- None
Calculation Type	- Cumulative
New Measure	- No
Desired Performance	- Lower than projected

### Explanatory Measures

#### **EX 1.4.1.1      NUMBER OF RACE ANIMALS DISMISSED FROM TEXAS PARI-MUTUEL RACETRACKS**

Short definition	- The number of race animals that suffer a major injury or death due to participating in a race. A major injury is one which requires a prolonged or permanent layoff from racing.
Purpose	- To monitor animal welfare by determining the rate of major injuries to animals while participating in a pari-mutuel race in Texas.
Data Source	- The data is maintained in the agency's database. The veterinarians input data regarding physical conditions they have observed or confirmed regarding race animals on the grounds of Texas pari-mutuel racetracks. The conditions are coded by type and severity.
Calculation Method	- A summation of the race animals with database codes for major injury or death during the report period.
Data Limitations	- Some injuries or deaths may not be apparent during or immediately after the running of a race and may not be reported.
Calculation Type	- Cumulative
New Measure	- No
Desired Performance	- Lower than projected

#### **EX 1.4.1.2      NUMBER OF RACE ANIMALS INJURED ON TEXAS PARI-MUTUEL RACETRACKS**

Short definition	- The number of race animals that suffer a minor injury due to participating in a race. A minor injury is one which requires a layoff from racing of less than one month.
Purpose	- To monitor animal welfare by determining the rate of minor injuries to animals while participating in a pari-mutuel race in Texas.
Data Source	- The data is maintained in the agency's database. The veterinarians input data regarding physical conditions they have observed or confirmed regarding race animals on the grounds of Texas pari-mutuel racetracks. The conditions are coded by type and severity.
Calculation Method	- A summation of the race animals with database codes for minor injuries during the report period.
Data Limitations	- Some injuries may not be apparent during or immediately after the running of a race and may not be reported.
Calculation Type	- Cumulative

New Measure	- No
Desired Performance	- Lower than projected

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## **GOAL B: REGULATE THE PARTICIPATION IN RACING**

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Objective 1: Maintain the efficiency of the occupational licensing process so that all licensed individuals are qualified through 2015.

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### **Outcome Measures**

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#### **OC 2.1.1 AVERAGE TIME REQUIRED TO ISSUE A NEW OCCUPATIONAL LICENSE**

Short definition	- The average time required to issue a new occupational license.
Purpose	- To determine the efficiency of the licensing procedure.
Data Source	- Random samples taken at each licensing office. The Licensing Program Administrator oversees the timing.
Calculation Method	- Random sampling at each licensing office. The amount of time measured in minutes that elapses from receipt of completed original license application until the time the license information is input in the database as a valid license. The total number of minutes taken to issue a new occupational license divided by the number of licenses sampled. Does not include applications submitted by mail or online.
Data Limitations	- Variations in types of occupational licenses issued can affect the time necessary to issue the license.
Calculation Type	- Non-cumulative
New Measure	- No
Desired Performance	- Lower than projected

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#### **OC 2.1.2 PERCENT OF LICENSE HOLDERS MEETING QUALIFICATIONS**

Short definition	- The percentage of license holders that meet all qualifications for licensing. If a person does not meet all the qualifications for an occupational license, a ruling is issued denying the license.
Purpose	- To determine the effectiveness of the Commission's licensing procedure.
Data Source	- The data is maintained in the agency's database.
Calculation Method	- The total number of applications minus the number of applications denied divided by the total number of issued licenses, multiplied by 100, stated as a percentage.
Data Limitations	- None
Calculation Type	- Cumulative
New Measure	- No
Desired Performance	- Higher than projected

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Output Measures

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**OP 2.1.1.1      NUMBER OF NEW OCCUPATIONAL LICENSES ISSUED**

Short definition	- The number of occupational licenses issued to individuals who were not licensed in the previous year.
Purpose	- To determine the rate of licensing activity by the agency.
Data Source	- The data is maintained in the agency's database.
Calculation Method	- A summation of the number of licenses that were issued to individuals who were not licensed in the previous year.
Data Limitations	- Performance depends on factors outside the agency's control, such as the number of applicants desiring a new occupational license.
Calculation Type	- Cumulative
New Measure	- No
Desired Performance	- Higher than projected

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**OP 2.1.1.2      NUMBER OF OCCUPATIONAL LICENSES RENEWED**

Short definition	- The number of occupational licenses issued to individuals who were licensed in the previous year.
Purpose	- To determine the rate of licensing activity by the agency.
Data Source	- The data is maintained in the agency's database.
Calculation Method	- A summation of the number of licenses that were issued to individuals who were licensed in the previous year.
Data Limitations	- Performance depends on factors outside the agency's control, such as the number of applicants desiring to renew an occupational license.
Calculation Type	- Cumulative
New Measure	- No
Desired Performance	- Higher than projected

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Efficiency Measure

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**EFF 2.1.1.1      AVERAGE REGULATORY COST PER INDIVIDUAL LICENSE ISSUED**

Short definition	- The average cost of issuing and maintaining an occupational license.
Purpose	- To determine the fiscal efficiency of issuing occupational licenses.
Data Source	- The data is maintained in the agency's database and USAS.
Calculation Method	- The total cost of the licensing strategy plus 17% of indirect administrative costs divided by the total number of licensees for the report period.
Data Limitations	- None
Calculation Type	- Cumulative
New Measure	- No
Desired Performance	- Lower than projected

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Explanatory Measure

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**EX 2.1.1.1 TOTAL NUMBER OF INDIVIDUALS LICENSED**

Short definition	- The total number of individuals that hold occupational licenses.
Purpose	- To determine the rate of licensing activity.
Data Source	- The data is maintained in the agency's database.
Calculation Method	- A summation of all current occupational licensees for the report period.
Data Limitations	- Performance depends on factors outside the agency's control, such as the number of applicants desiring occupational licenses.
Calculation Type	- Cumulative
New Measure	- No
DESIRED PERFORMANCE	- N/A

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**GOAL C: REGULATE PARI-MUTUEL WAGERING IN TEXAS**

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Objective 1: By 2015, increase the pass rate for initial tote tests to 97% and the pass rate for pari-mutuel compliance audits to 95%.

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Outcome Measures

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**OC 3.1.1 PERCENTAGE OF COMPLIANCE AUDITS PASSED**

Short definition	- The number of compliance audits (pari-mutuel procedural reviews) with a pass rate of 80% or greater as a ratio of total compliance audits conducted.
Purpose	- To determine the effectiveness of ongoing regulatory communication between the agency and the racetracks.
Data Source	- The Compliance Audit Administrator maintains records of all compliance audits.
Calculation Method	- The total number of compliance audits with a pass rate of 80% or greater divided by the total number of compliance audits conducted during the report period.
Data Limitations	- Performance depends on factors outside the agency's control, such as the racetracks willingness to comply with the required regulations.
Calculation Type	- Non-cumulative
New Measure	- No
Desired Performance	- Higher than projected

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**OC 3.1.2 PERCENTAGE OF TOTALISATOR (TOTE) TESTS PASSED ON THE FIRST RUN**

Short definition	- The percentage of tote tests passed on the first run. A tote test is a simulation of wagering activity to determine whether the computer equipment that records wagers, totals wagering pools, and calculates payoffs is operating in compliance with Commission and Comptroller rules.
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## Appendix D. Outcome Projections

Purpose	- To determine the compliance rate of both the racetracks and the tote companies.
Data Source	- The Compliance Audit Administrator conducts or supervises the tests and maintains the results. If a tote test is not passed on the first run, adjustments are made and further tests are run until the systems operate with 100% accuracy.
Calculation Method	- The total number of tote tests passed on the first time divided by the total number of tests performed during the reporting period.
Data Limitations	- Performance depends on factors outside the agency's control, such as the tote companies' willingness to comply with the required regulations.
Calculation Type	- Non-cumulative
New Measure	- No
Desired Performance	- Higher than projected

### Output Measures

#### **OP 3.1.1.1      NUMBER OF LIVE AND SIMULCAST RACES AUDITED AND REVIEWED**

Short definition	- The number of live and simulcast races on which pari-mutuel wagering is audited and reviewed by agency auditors.
Purpose	- To determine the volume of pari-mutuel wagering regulatory work in Texas.
Data Source	- The data is maintained in the agency's database.
Calculation Method	- A summation of all live and simulcast races on which pari-mutuel wagering is conducted at Texas racetracks during the report period.
Data Limitations	- Performance depends on the preferences of the racetracks regarding the amount of live races and simulcast performances it desires to offer for wagering. Those preferences can be shaped by many factors, such as the economy in the track location and competitive forces, which are outside the agency's control.
Calculation Type	- Cumulative
New Measure	- Yes
Desired Performance	- Higher than projected

#### **OP 3.1.1.2      NUMBER OF COMPLIANCE AUDITS COMPLETED**

Short definition	- The total number of compliance audits completed.
Purpose	- To determine the rate of pari-mutuel regulatory activity.
Data Source	- The Compliance Audit Administrator maintains a log of all audits.
Calculation Method	- A summation of the number of compliance audits completed.
Data Limitations	- Performance will depend on number of pari-mutuel wagering approvals requested by the racetracks.
Calculation Type	- Cumulative

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New Measure	- No
Desired Performance	- Higher than projected

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**OP 3.1.2.1      NUMBER OF TOTE TESTS COMPLETED**

Short definition	- The total number of tote tests performed.
Purpose	- To determine the rate of pari-mutuel activity.
Data Source	- The Compliance Audit Administrator maintains a log of all tote tests.
Calculation Method	- A summation of the number of tests performed on tote equipment at the racetracks. This test is performed at least once a year and/or before the opening of each live race meet and after any system change has been made.
Data Limitations	- None
Calculation Type	- Cumulative
New Measure	- No
Desired Performance	- Higher than projected

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**Efficiency Measure**

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**EFF 3.1.1.1      AVERAGE COST TO AUDIT AND REVIEW A LIVE OR SIMULCAST RACE**

Short definition	- The average cost of reviewing for regulatory compliance a live or simulcast race on which pari-mutuel wagering is conducted.
Purpose	- To determine the fiscal efficiency of performing audits on live and simulcast races.
Data Source	- The data is maintained in the agency's database and USAS.
Calculation Method	- The total strategy cost, including indirect costs, divided by the number of live and simulcast races on which pari-mutuel wagering is conducted in Texas during the report period.
Data Limitations	- None
Calculation Type	- Non-cumulative
New Measure	- Yes
Desired Performance	- Lower than projected

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**Explanatory Measures**

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**EX 3.1.1.1      TOTAL PARI-MUTUEL HANDLE (IN MILLIONS)**

Short definition	- The total amount wagered, in millions, at Texas racetracks on both live and simulcast races.
Purpose	- To determine the amount of money wagered in Texas.
Data Source	- The data is maintained in the agency's database. This data is updated daily by Commission auditors.
Calculation Method	- A summation of the total amount wagered at each track for the report period.

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Data Limitations	- Performance is completely outside the agency's control.
Calculation Type	- Cumulative
New Measure	- No
Desired Performance	- N/A

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**EX 3.1.1.2 TOTAL TAKE TO THE STATE TREASURY FROM PARI-MUTUEL WAGERING ON LIVE AND SIMULCAST RACES**

Short definition	- The amount of revenue to the state from pari-mutuel wagering on both live and simulcast races. The tax rate is determined by the Texas Racing Act.
Purpose	- To determine the amount of revenue due to the state.
Data Source	- The data is maintained in the agency's database.
Calculation Method	- A summation of the state's share of the total amount wagered for the report period.
Data Limitations	- Performance is completely outside the agency's control.
Calculation Type	- Cumulative
New Measure	- No
Desired Performance	- N/A

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**EX 3.1.1.3 RATIO OF SIMULCAST HANDLE TO LIVE HANDLE**

Short definition	- The ratio of amount wagered on simulcast races compared to the amount wagered on live races.
Purpose	- To assess the relative wagering activity on simulcast races and live races.
Data Source	- The data is maintained in the agency's database.
Calculation Method	- The total amount wagered on simulcast races is divided by the total amount wagered on live races, stated as a ratio.
Data Limitations	- Performance depends on factors outside the agency's control, such as the amount of simulcast activity requested by the racetracks.
Calculation Type	- Non-cumulative
New Measure	- No
Desired Performance	- N/A

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**Goal D: Conduct Purchasing and Contracting Activities that Foster Meaningful and Substantive Inclusion of Historically Underutilized Businesses.**

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Objective 1: Ensure purchases from historically underutilized businesses constitute at least 16% of the total value of purchases each year.

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**Outcome Measure**

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**OC 4.1.1 PERCENTAGE OF TOTAL DOLLAR VALUE OF PURCHASES MADE FROM HUBS**

Short definition	- The percentage of purchases made from HUB's by the agency.
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## Appendix D. Outcome Projections

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Purpose	- To determine the percentage of business done with HUB's during the report period.
Data Source	- The information is provided by the Texas Procurement and Support Services.
Calculation Method	- The dollar value of purchases made to HUB's divided by the total dollar value of all purchases made during the report period.
Data Limitations	- None
Calculation Type	- Non-cumulative
New Measure	- No
Desired Performance	- Higher than projected

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### Output Measures

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#### **OP 4.1.1.1      NUMBER OF HUB CONTRACTORS AND SUBCONTRACTORS CONTACTED FOR BID PROPOSALS**

Short definition	- The number of HUB contractors and subcontractors that the agency contacts for bid proposals.
Purpose	- To assess the agency's efforts to include HUBs in purchasing and contracting activities.
Data Source	- The information is provided by the Texas Procurement and Support Services.
Calculation Method	- A summation of all HUBs contacted for bids on goods and services.
Data Limitations	- None
Calculation Type	- Cumulative
New Measure	- No
Desired Performance	- Higher than projected

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#### **OP 4.1.1.2      NUMBER OF HUB CONTRACTS AND SUBCONTRACTS AWARDED**

Short definition	- The number of HUBs awarded contracts by the agency.
Purpose	- To determine the agency's level of participation with HUBs.
Data Source	- The information is provided by the Texas Procurement and Support Services.
Calculation Method	- A summation of all contracts awarded to HUBs.
Data Limitations	- Performance will depend on the quality and cost of bids received from HUBs.
Calculation Type	- Cumulative
New Measure	- No
Desired Performance	- Higher than projected

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#### **OP 4.1.1.3      DOLLAR VALUE OF HUB PURCHASES**

Short definition	- The dollar value of all HUB purchases.
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## Appendix D. Outcome Projections

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Purpose	- To determine the amount spent by the agency on purchases from HUBs.
Data Source	- The Texas Procurement and Support Services maintains and provides the information.
Calculation Method	- The summation of total dollar amount spent of purchases of goods and services from HUBs during the report period.
Data Limitations	- Performance will depend on the quality and cost of bids received from HUBs.
Calculation Type	- Cumulative
New Measure	- No
Desired Performance	- Higher than projected

### **Agency Overview**

The Texas Racing Commission regulates all aspects of pari-mutuel horse and greyhound racing through licensing, on-site monitoring, and enforcement. The Commission is required by statute and rule to:

- License racetracks that offer racing and the people who work at the racetracks or own race animals.
- Allocate race dates and supervise the conduct of all races, monitor the health and safety of the race animals, and conduct drug tests to ensure the animals race without prohibited substances.
- Oversee all pari-mutuel wagering activity, approve simulcasts, test the totalisator equipment, and ensure the proper allocation and distribution of revenue generated by pari-mutuel wagering.
- Administer the Texas Bred Incentive Program, which provides economic incentives to support a healthy and vigorous breeding industry in the state.

Pari-mutuel racing was originally authorized by the legislature in 1986 and endorsed by statewide referendum in 1987. Currently, the agency is authorized to employ 75.5 FTEs in FY 2010 and in FY 2011. The agency structure features an Executive group headed by an Executive Director; a Division for Racing Oversight led by a Deputy Director for Racing Oversight; a Division for Wagering and Racing Review directed by a Deputy Director for Wagering and Racing Review; and a Division for Finance and Administration guided by a Deputy Director of Finance and Administration.

The Commission is self-funded by the entities it regulates and typically is appropriated only GR–Dedicated funds. The agency’s revenue primarily comes from fees assessed to racetracks and occupational licensees and from revenue collected from uncashed winning tickets, commonly referred to as outstanding tickets or “OUTS.” For FY 2010 and FY 2011, the legislature provided an additional \$1.5 million in General Revenue Funds. This additional funding compensates for fluctuations in the agency’s cash flow caused by variations in the uncashed, or outstanding ticket revenue. Excluding Texas-Bred Incentive Program pass-through funds, approximately 80% of the agency’s operating budget is used for salaries.

### **Agency Mission and Philosophy**

The mission of the Texas Racing Commission is to enforce the Texas Racing Act and its rules to ensure the safety, integrity, and fairness of Texas pari-mutuel racing. The Texas Racing Commission performs its responsibilities in strict compliance with state laws. The agency conducts its regulatory activities fairly, consistently, efficiently, and courteously.

## Strategic Goals and Objectives

Goal A.	Enforce Racing Regulation
Objective 1:	Regulate Pari-Mutuel Racetracks Effectively
Strategy 1:	Provide Regulatory and Enforcement Services to Racetrack Owners
Objective 2:	Increase the number of Texas Bred Race Animals Competing
Strategy 1:	Allocate Texas Bred Funds to Breed Registries
Objective 3:	Reduce the Rate of Rulings per Occupational Licensee
Strategy 1:	Supervise the Conduct of Racing through Enforcement and Monitoring
Strategy 2:	Monitor Occupational Licensees Activities.
Objective 4:	Reduce the Percentage of Race Animals Injury or Dismissed
Strategy 1:	Inspect and Provide Emergency Care.
Strategy 2:	Administer Drug Tests
Goal B.	Regulate Participation
Objective 1:	Maintain the Efficiency of the Occupational Licensing Process
Strategy 1:	Administer the Occupational Licensing Programs through Enforcement
Strategy 2:	TexasOnline
Goal C.	Regulate Pari-mutuel Wagering
Objective 1:	Increase Pass Rate for Initial Tote Test and Compliance Audits
Strategy 1:	Regulate Pari-mutuel Wagering to Maintain an Honest Racing Industry
Strategy 2:	Conduct Wagering Compliance Inspections
Goal D.	Indirect Administration
Objective 1:	Indirect Administration
Strategy 1:	Central Administration and Other Support Services
Strategy 2:	Information Resources

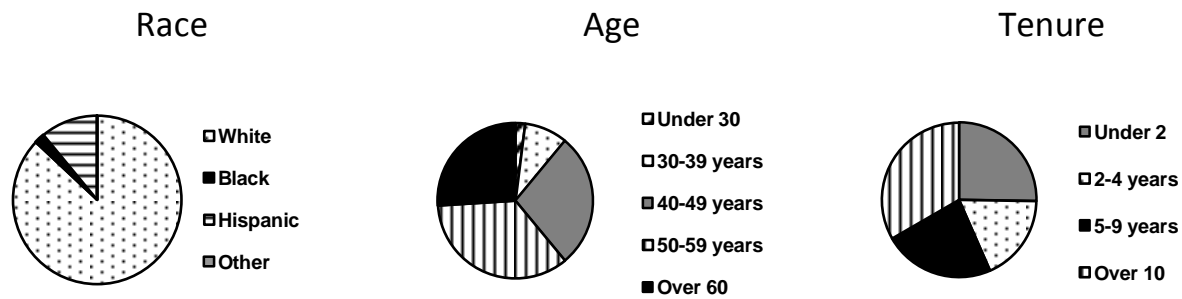
### Anticipated Changes in Strategies

The agency may require changes to its goals or strategies over the next five years in order to mirror any changes to the Texas Racing Act that affect the Commission's regulatory responsibilities.

## Current Workforce Profile (Supply Analysis)

### Demographics (5/31/2010)

The Commission's workforce is 51% male, 49% female. The charts below further breakdown the Commission's workforce:



Compared to the statewide civilian figures supplied by the Texas Workforce Commission, Civil Rights Division, the Commission's workforce breaks down as follows:

		Administration	Professional	Service & Maintenance	Administrative Support
White	Agency	100.00%	92.86%	91.67%	50.00%
	State	73.89%	61.58%	43.04%	50.11%
African American	Agency	0.00%	0.00%	2.78%	11.11%
	State	9.05%	11.26%	30.12%	19.49%
Hispanic	Agency	0.00%	7.14%	2.78%	33.33%
	State	12.79%	14.86%	24.71%	27.53%
Female	Agency	54.55%	14.29%	33.33%	94.44%
	State	49.32%	55.16%	52.65%	88.16%
Male	Agency	45.45%	85.71%	66.67%	5.56%
	State	50.68%	44.84%	47.35%	11.84%

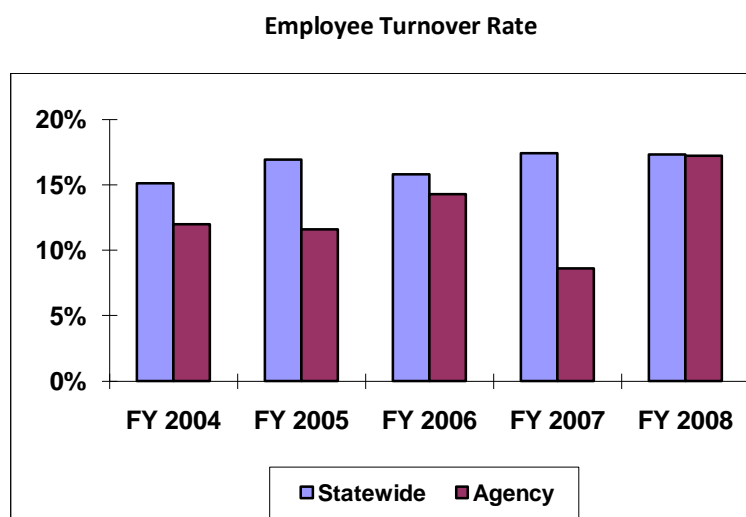
**Source:** The data in this chart was extrapolated from the Bureau of Labor Statistics, Geographic Profile of Employment and Unemployment, 2008, for the state of Texas.

### Retirement Eligibility

According to the information from the state's USPS payroll system using age and years of state service, 28 of the agency's current employees or 44.4 percent of the authorized FTEs will be eligible to retire between 2010 and 2015. During FY2010, the agency currently employs six 'return-to-work' retirees. Almost half of the agency occupies positions that require specialized skills or professional training that cannot be supplied by the agency through on-the-job training.

### Employee Turnover

Turnover is an important issue in any organization and the Commission is no exception. In 2008, the Commission had a turnover rate of 17.2% up from 8.6% in 2007. The increase in turnover from 2007 to 2008 is due to involuntary staff separations after the closure of a greyhound racetrack. The biggest workforce challenge facing the Commission in the next five years is the retention of qualified and experienced staff. The following graph compares the average of the Commission turnover to the state as a whole.



### Critical Workforce Skills

In addition to general administrative and clerical skills, the Commission's workforce must have the following skills to accomplish its mission:

- Monitoring/reviewing live races for interference/misconduct
- Inspecting race animals for fitness
- Performing audits on pari-mutuel wagering activity
- Conducting racing-related investigations
- Developing and maintaining a specialized database and agency-wide computer network
- Interpreting statutes/drafting rules
- Conflict resolution skills

## **Future Workforce Profile (Demand Analysis)**

### **Critical Functions**

Assuming no change in statutory responsibilities, the Commission expects its current functions to continue in the future:

- Licensing racetracks and the occupational licensees who own race animals or work at the racetracks.
- Monitoring activities by racetrack personnel and occupational licensees for compliance with regulatory requirements.
- Supervising the conduct of the races.
- Monitoring the health and safety of the race animals and collecting specimens for drug tests.
- Overseeing all pari-mutuel wagering activity and testing totalisator equipment.
- Investigating and resolving complaints about licensees.
- Auditing the operation of racetracks and official breed registries' incentive programs.

### **Expected Workforce Changes**

The Commission has two workforce issues under review and action: (1) contract personnel to ensure the integrity of wagering data; and (2) reduction of liability for comp-time, FLSA-overtime and vacation time for staff that supervise live racing. The Commission is increasing its use of contract personnel when possible to fill staff positions.

#### ***Improved Controls for Integrity of Wagering Data***

Complex computer systems called totalisators (“totes”) process all pari-mutuel wagering at Texas racetracks. The agency contracted with a certified testing laboratory in July 2008 to perform an independent review of tote systems operating at Texas racetracks. The final project report validated the integrity of the tote systems operating at the Texas racetracks. With this testing project, the agency satisfied a finding issued by the State Auditor’s Office (SAO) in May 2006 that the agency strengthen its EDP reviews of the tote systems to ensure the data coming from and stored within the systems is reliable. The review showed some areas for improvement in tote system operations and the need for wagering terminal standards and rule updates that reflect continuing advances in tote system technology. The agency requested and received additional appropriations to continue with these advancements during the 2010-11 biennium. The agency will include a request to continue funding for this project in the 2012-13 biennium.

#### ***Reduction of Cumulative Liability for Supervision of Racing Staff***

Management is in the process of reviewing the agency’s \$500,000 cumulative liability of comp-time, FLSA-overtime and vacation time. The result may show that the Commission needs an additional FTE in Strategy A.3.1. - Supervise & Conduct Live Races to address this liability. Because of statutory requirements that set specific levels of staff at the racetracks during live race days and increased workloads, to date the agency has not been able to sustain an overall decrease in this liability. Specifically, the agency has had difficulty hiring staff veterinarians for race meets and has had to employ contract veterinarians to cover required positions.

### **Change in Number of Employees Required to Accomplish Mission**

Assuming no significant increase in wagering or live racing activity, the Commission expects no increase in the number of FTEs required to accomplish its mission beyond what has been appropriated. For each new horse racetrack that begins simulcasting and live racing, the Commission will require up to an additional five FTEs to effectively regulate the wagering and racing activities in accordance with the Texas Racing Act and the Commission's rules. The Commission has approved live race dates for three class 2 racetrack licenses that could open in the next biennium. The additional

FTEs needed should these approved racetracks open for business are requested through contingency riders within the LAR.

### **Future Workforce Skills Required**

In the future, the Commission will need to accomplish more with less in an increasingly tight budgetary environment. As the racing industry matures and changes with technology, the Commission's workforce must be keenly aware of its regulatory role. Therefore, Commission employees will be required to use more of the following skills:

- Creativity and problem solving
- Communication
- Commitment to learning
- Leadership and team-building
- Organizational awareness
- External awareness
- Flexibility
- Integrity and honesty

## **Gap Analysis**

### **Anticipated Surplus/Shortage of Employees or Skills**

With more than 44% of the Commission workforce eligible for retirement by FY 2015, the Commission projects a shortage in staffing and skill levels needed to meet future requirements. Anticipated shortages of employees that are most likely to be affected by the retirement eligibility include: veterinarians, stewards and judges. Additionally, the Commission continues to have difficulty retaining qualified veterinarians due to significant differences in salaries compared to the private sector.

## Survey of Employee Engagement

Promoting excellence through participation and accountability, the Commission finds that the Employee Engagement Survey (EES), previously known as the Survey of Organizational Excellence, provides a meaningful and useful tool for gauging the agency's health. Administered by the School of Social Work at the University of Texas at Austin, the results of the EES reflect how staff views their organization, work and relationships within the organization's environment. The benchmark data from all participating agencies gives an added perspective to the results.

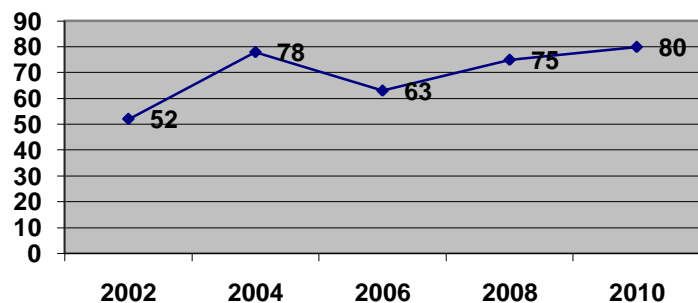
The EES survey consists of 71 primary statements that are used to assess essential and fundamental aspects of how the organization functions, the climate, the potential barriers to improvement and integral organizational strengths. The items are all scored on a five-point scale from Strongly Disagree (1) to Strongly Agree (5) and are averaged to provide various summary measures – Constructs, Climate Indicators and a Synthesis Score.

## Participation Rate

In addition to the standard questions provided by the University of Texas School of Social Work, the Commission asked each respondent to identify the department in which he or she respondent works.

Out of the 60 employees invited to take the online survey, 48 responded, for a 80 percent overall response rate. The EES report states that, as a general rule, rates higher than 50 percent suggest soundness. The agency's 80 percent rate is considered high. According to the analysis, high participation rates mean that employees have an investment in the organization, want to see the organization improve and generally have a sense of responsibility to the organization.

**Response Rate Over Time**



One of the values of participating in multiple iterations of the survey is the opportunity to measure organizational change over time. If organizational health is sound, rates tend to plateau above the 50% level.

The demographic information gives insight into the agency's staff: more than 65 percent of respondents have worked for the Commission 6 years or longer; more than 83 percent plan to be working for the Commission in one year; and almost 68 percent are 50 years or older.

## Survey Results

The survey groups its questions into 14 Survey Constructs designed to profile organizational areas of strengths and weaknesses. These constructs are designed to capture the concepts which leadership uses most and which are the primary drivers of organizational performance and engagement. The survey provides results for five workplace dimensions: Work Group, Accommodations, Organization, Information and Personal. These constructs are: Supervision, Team, Quality, Pay, Benefits, Physical Environment, Strategic, Diversity, Information Systems, Internal Communication, External Communication, Employee Engagement, Employee Development and Job Satisfaction. Additionally, there are "Climate" indicators: Atmosphere, Ethics, Fairness, Feedback and Management.

## Appendix F.

### Survey of Organizational Excellence

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The agency's overall survey score, or Synthesis score, is 362. This represents the average of all survey items. This is a broad indicator for overall comparison with other entities and, when available, over time. According to the EES report, synthesis scores typically range from 325 to 375.

Scores for the 14 constructs range from a low of 100 (negative) to a high of 500 (positive). Scores of 375 or higher indicate areas of substantial strength. Scores above 350 suggest that employees perceive the issue more positively than negatively. Conversely, scores below 350 are viewed less positively by employees and scores below 325 should be a significant source of concern for the organization.

The agency's results are overwhelmingly positive. Out of the 14 constructs, there was only one area that is a significant source of concern for the agency. Scores for six of the constructs were substantially strong, ranging from 375 to 390. Positive scores for four of the constructs ranged from 366 to 364, with the remaining 3 constructs coming in from 338 to 346. The lowest score by far was Pay at 254.

Physical Environment	390
Supervision	389
Team	385
Information Systems	381
Strategic	376
Quality	375
Benefits	374
External Communication	368
Employee Engagement	368
Job Satisfaction	366
Diversity	346
Employee Development	345
Internal Communication	338
Pay	254

## Relative Strengths

With the highest score of 390, the Physical Environment construct captures employees' perceptions of the total work atmosphere and the degree to which employees believe it is a 'safe' working environment. This high score indicates that Commission employees see the work setting as satisfactory, safe and that adequate tools and resources are available.

Coming in only one point lower at 389, the Supervision construct provides insight into the nature of supervisory relationships within the organization, including aspects of leadership, the communication of expectations and the sense of fairness that employees perceive between supervisors and themselves. A high Supervision score indicates that employees view their supervisors as fair, helpful and critical to the flow of work.

With a high score of 385, the Team construct captures employees' perceptions of the people within the organization that they work with on a daily basis to accomplish their jobs — the work group or team. This construct gathers data about how effective employees think their work group is as well as the extent to which the organization supports cooperation among employees. This high Team score indicates that employees view their work groups as effective, cohesive and open to the opinions of all its members.

## Areas of Improvement

With an average score of 345, the Employee Development construct assesses the priority given to employees' personal and job growth needs. It provides insight into whether the culture of the organization sees human resources as the most important resource or as one of many resources. This average score suggests that employees feel that minimum needs are being met for personal development and enhancement of job skills.

The score of 338 for the Internal Communications construct captures the organization's communications flow from the top-down, bottom-up and across divisions/departments. It addresses the extent to which communication exchanges are open, candid and move the organization toward goal achievement. This average score suggests that employees feel information does not arrive in a timely fashion and find it difficult to locate needed facts.

The Pay construct addresses perceptions of the Commission's overall compensation package. It describes how employees feel the compensation package "holds up" when compared to similar jobs in other organizations. At 254, or 84 points lower than the next second lowest score, this score suggests that pay is a central concern or reason for satisfaction or discontent. In some situations pay does not meet comparables in similar organizations. In other cases individuals may feel that pay levels are not appropriately set to work demands, experience and ability. Cost of living increases may cause sharp drops in purchasing power, and as a result, employees will view pay levels as unfair.

## Climate Analysis

The climate in which employees work does, to a large extent, determine the efficiency and effectiveness of an organization. Overall, the agency's results are positive. Out of the five climate areas, there was only one climate area score that was lower scoring.

Ethics	394
Atmosphere	391
Fairness	348
Feedback	340
Management	300

## BENCHMARK COMPARISONS

The following charts compare the agency's 2010 scores with the average scores for all participating state agencies, for all similar mission agencies — regulatory and all similar sized agencies — 26 to 100 employees.

### Synthesis Score

Texas Racing Commission	362
Regulatory Agencies	378
Similar Size Agencies	367
Average Scores for All Participating Agencies	360

### Response Rate

Texas Racing Commission	80.0%
Similar Mission Agencies - Regulatory	88.5%
Similar Size Agencies 26 to 100 employees	84.9%
Average Scores for All Participating Agencies	57.8%

## Appendix F. Survey of Organizational Excellence

### Constructs

	TxRC	Regulatory Agencies	Similar Size Agencies	All Agencies
Physical Environment	390	396	391	390
Supervision	389	404	390	396
Team	385	380	366	375
Information Systems	381	378	360	374
Strategic	376	401	394	399
Quality	375	386	376	380
Benefits	374	389	380	387
External Communication	368	399	388	386
Employee Engagement	368	382	377	379
Job Satisfaction	366	386	380	378
Diversity	346	367	355	361
Employee Development	345	375	370	382
Internal Communication	338	357	338	351
Pay	254	287	268	270

### Climate

	TxRC	Regulatory Agencies	Similar Size Agencies	All Agencies
Ethics	394	393	382	389
Atmosphere	391	388	378	386
Fairness	348	354	337	347
Feedback	340	358	342	350
Management	300	364	346	344

## **Management Plan**

With 48 of 60 employees participating in the survey, management is pleased with the overall positive results of the 2010 survey. Judging from the continued high participation rate, employees have seen the value in the process.

Addressing the “fair pay” issue will be challenging for the Commission given the already strained budget and the looming possibilities of further cuts during the upcoming biennium. Providing opportunities to discuss this issue may be beneficial to finding ways other than monetary compensation to offset the negativity.

Employee dissatisfaction with pay has not, however, altered employee attitudes toward their jobs or the level of service provided. The overall favorable employee survey results correlate well with the agency’s recent customer service survey with more than 94 percent of the respondents expressing an overall satisfaction with services received. As we continue to ask our employees to do more with less, it speaks well of staff that they continue to deliver a high level of customer service.

Management will present these results at the agency-wide meeting tentatively scheduled in September of 2010 to discuss and solicit their input. Agency personnel will develop action plans and management committees will form to address opportunities for the organization to maximize gains from the investment in Commission employees.

## Appendix G. Historically Underutilized Business Plan

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The Commission remains committed to the State's program that encourages purchasing from these businesses. Although the Commission is not a significant purchasing power, using less than 5% of its operating budget for purchases, the Commission routinely exceeds its goal of 16% of total purchases with HUB's.

HUB Purchases as Percentage of Total Purchases

	Profess. Services	Other Purchases	Commodities	Total Purchases
2005	100.0%	7.48%	54.8%	41.2%
2006	100.0%	11.4%	70.2%	44.0%
2007	100.0%	21.7%	79.3%	48.9%
2008	100.0%	35.4%	60.4%	49.6%
2009	100.0%	19.0%	85.0%	33.6%

**Breakage** – Generally, breakage is the amount left over after payoffs to winning ticket holders rounded down to the nearest dime.

**Exotic Wagers** – a mutuel wager that involves wagers on more than one entered horse or greyhound or on entries in more than one race.

**Handle** – the total amount of money wagered at a racetrack during a particular period.

**Outstanding Ticket (OUTS)** – a pari-mutuel ticket that is not presented for payment before the end of the race day for which the ticket was purchased.

**Purse** – the cash portion of the prize for a race.

**Simulcast** – the telecast or other transmission of live audio and visual signals of a race, transmitted from a sending track to a receiving location, for the purpose of wagering on the race at the receiving location.

**Totalisator (Tote)** – a machine or system for registering and computing the wagering and payoffs in pari-mutuel wagering.

